HUNGARY COUNTRY COMMERCIAL GUIDE FY 2002

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Chapter 1. Executive Summary

The Country Commercial Guide (CCG) presents a comprehensive look at Hungary's commercial environment, using economic, political, and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. embassies through the combined efforts of several U.S. Government agencies.

Since the political and economic changes of 1989, Hungary has steadily developed into one of Central Europe's most attractive business environments. The level of political, structural and economic stability it has achieved demonstrates the success of its transition to a modern market economy. As a result of that stability, Hungary has become a member of the Organization for Economic Cooperation and Development (OECD), a full North Atlantic Treaty Organization (NATO) member and an aspiring member of the European Union (EU). Accession into the EU has been a driving force in many of the structural and macro-economic changes undertaken in Hungary in recent years. The Hungarian government expects EU accession to occur in 2004 or 2005 and is currently harmonizing its legislation to EU norms in order to meet this timetable.

Hungary continues to be a good market for U.S. goods and services. It has demonstrated economic growth of higher than four percent in every year since 1997. In 2000, gross domestic product (GDP) grew at 5.2 percent -- the highest in the Central and Eastern Europe region and well exceeding the average of the EU.

As has historically been the case, Hungary is a crossroads for trade in Europe. With the prosperous EU to the west and economically developing nations to the south and east, Hungary offers not only an export market itself, but a central distribution point for the region.   Although Hungary has strong trade ties with its European neighbors, the United States is its sixth largest trading partner.. According to Hungarian trade statistics for 2000. Hungary moved from the United States' 64th largest trading partner to its 53rd.. According to U.S. statistics for 2000.

According to U.S. Census Bureau data, total trade between the United States and Hungary exceeded USD 3.2 billion in 2000, an increase of more than 37 percent from the previous year. United States' exports to Hungary grew at a rate of 13 percent, while Hungarian exports to the United States grew by 43 percent. According to Hungarian statistics for 2000, the United States is Hungary's fifth largest export market preceded only by Germany, Austria, Italy, and the Netherlands; and the United States is the seventh largest exporter to Hungary, preceded by Germany, Russia, Italy, Austria, Japan and France.

In looking at Hungarian and U.S. trade statistics, the "Best Prospects" for exports of non-agricultural goods and services from American companies to Hungary are as follows:

1. Computers And Peripherals
2. Architectural/Construction/Engineering Services
3. Measuring/Scientific Devices
4. Internet Services
5. Medical Equipment – Healthcare Technology
6. Pollution Control
7. Travel And Tourism
8. Cosmetics and Toiletries
9. Agricultural Machinery
10. Pharmaceutical And Medicinal Products
11. Franchising
12. Electronic And Electrical Components Of ADP And Electric Machinery

See the Best Prospects section of this paper for a detailed analysis of these industrial sectors.

In the area of investment, the three best sector prospects continue to be: 1) the automotive industry; 3) the general industrial and machine tool industry; and 3) the information technology industry.

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Chapter 2. Economic Trends And Outlook

A. Major Trends and Outlook

Hungary has emerged from a transition period in the 1990s as a robust, fully functioning market economy. Following a stringent reform program in 1995-6, which featured privatization, liberalization and strong inducements for foreign investment, Hungary's economy quickly embarked on a path of rapid economic growth, falling unemployment, moderating inflation and rapid foreign direct investment inflows. As a result of these reforms, Hungary is now one of Europe's fastest-growing and most open economies, deeply integrated into the European economy. With this transition mostly complete, Hungary is moving swiftly to meet EU enlargement requirements and is poised to become one of the first new members of an expanded European Union, perhaps as early as 2004 or 2005. The important challenges for Hungary will be gaining admittance into the EU as a full member within the next five years and also raising its economic indices to average EU levels.

Hungary continues to outpace its Central and Eastern European neighbors in terms of GDP growth with its 5.2 percent increase in 2000. This surpasses the 1999 level by a full percentage point and represents Hungary's highest annual growth of the decade. Fueling this growth was the surge in Hungarian exports (21.7 percent). Source: Hungarian Ministry of Economic Affairs. resulting from the comparative weakness of the Hungarian Forint (HUF) to the US dollar (USD), as well as developments in the European Union. While Hungarian export sales were the major growth factor, domestic industrial sales were also significantly improved, growing by nine percent in 2000. However, it is foreign direct investment in Hungary that has fueled the growth in Hungarian exports. In 2000, Hungarian companies with foreign-ownership accounted for 70 percent of Hungary's exports and 33 percent of GDP.. Source: Economist Intelligence Unit. Total foreign direct investment (FDI) in Hungary since 1989 is USD 23.5 billion, with the United States investing the largest share at 29 percent followed by Germany at 26 percent.. Source: The Hungarian Investment and Trade Development Agency..

Along with its strong growth rates, Hungary also improved its balance of payments position, reducing its current account deficit from 4.3 percent of GDP in 1999 to 3.3 percent in 2000. With FDI maintaining the high levels of the last several years and strong growth in tourism revenues, Hungary was more than able to offset a slightly deteriorated foreign trade balance created by significant price increases in crude oil and gas imports.

Industrial production rose by 18.3 percent and accounted for a large proportion of exported goods. High-tech equipment (computers, telecommunication equipment and household appliances) was the strongest industrial growth segment. The increased industrial production was mirrored by growth in worker productivity (from 9.9 percent to 16.7 percent) and helped to reduce unemployment rates to 6.4 percent. Offsetting the 1.5 percent increase in real wages was the 9.8 percent inflation rate (which, though higher than expected, continues the downward trend in the inflation rate from an annual average of 18.4 percent in 1997).

In 2000 Hungary and the United States became even stronger commercial partners, with each growing in importance to the other. Hungary moved from 64th to 53rd in ranking of the top trading partners of the United States. Meanwhile the United States remains Hungary's sixth largest trading partner (behind Germany, Austria, Italy, Russia, and France).. Source: Hungarian Ministry of Economic Affairs. According to Hungarian statistics the United States moved up to become Hungary's fifth largest export market, but the ranking is probably even higher if re-exports from Western Europe are factored into the analysis. Also in 2000, the US was the seventh largest exporter to Hungary and it was the third largest source of foreign direct investment providing about USD 1.5 billion in capital. Only the Netherlands and Germany invested more in Hungary in 2000.. Source: Hungarian Investment and Trade Development Agency.

Hungarian trade statistics for 2000 show that the value of Hungarian exports went up by 12.3 percent to USD 28 billion; meanwhile the increase in Hungarian imports was 14.5 percent accounting for a total of USD 32 billion. Hungarian first quarter 2001 exports and imports amounted to USD 8.1 billion and USD 9.1 billion respectively.. Source: Hungarian Ministry of Economic Affairs. In 2000, 75 percent of Hungary's exports went to the EU while an above average percentage (12.9) went to Central Europe Free Trade Agreement (CEFTA) countries. U.S. exports to Hungary reached USD 1.224 billion in 2000, up 26 percent over 1999.. Source: Hungarian Ministry of Economic Affairs. Hungary's exports to the U.S. increased to USD 2.7 billion.. Source: U.S. Department of Commerce, Census Bureau. Leading U.S. exports to Hungary include automotive parts, computer equipment, measuring instrumentation, tapes and disks. Hungary's principal exports to the U.S. include electrical machinery, machine tools, vehicles (non-railway), and organic chemicals.

Hungary's sovereign debt is rated at the mid-investment-grade level by all major credit rating agencies. Moody's recently upgraded Hungary to the high-grade rating A3. Hungary's currency, the forint (HUF), is fully convertible and is linked by a crawling peg to the Euro (with a +/- 15 percent intervention band). Hungary became a member of the OECD in May 1996; is a founding member of the World Trade Organization (WTO); joined NATO in March 1999, and has been in continuous, substantive EU accession negotiations since March 1998.

B. Principal Growth Sectors

Manufacturing

In 2000, the manufacturing sector accounted for 77 percent of gross industrial production, 57 percent of domestic sales and 94 percent of industrial exports. Output in the manufacturing sector increased 18.3 percent in 2000. Within the overall manufacturing sector, the following categories are considered to have substantial growth prospects in the coming years.

- Electric Machine and Instrument Production

The electric machine and instrument category comprises the manufacture of telecommunications devices, transmission technology devices, electrotechnical consumer goods (TV sets, videocassette recorders, radio receivers, CD players), electronic parts (semiconductors, resistors, condensers, electromechanical parts) and components. Gross production in the sector grew by 55 percent and yielded 25 percent of Hungary's total industrial production (and 40 percent of its exports). Consumer goods and consumer electronic devices account for the largest part of both production and exports.

- Automotive

Almost 14 percent of total Hungarian industrial output (and 24 percent of total Hungarian exports) is accounted for by the vehicle manufacturing industry in Hungary. Two significant sectors of this industry are motor vehicle manufacturing and automotive parts manufacturing. Due to the arrival in Hungary of multinational companies in the car and automotive-parts industries and their large-scale investments in plant and equipment, there has been a rapid development of the Hungarian automotive industry to world-class levels in order to serve the European market. Hungary has experienced especially dynamic development in the manufacture of electric parts for vehicles.

Major companies, including Visteon, General Motors/Opel, Audi, Suzuki and Lear Automotive have established multi-million dollar investments for auto-assembly and/or component manufacture. Hungary offered these manufacturers important advantages including skilled and relatively low wage labor; an ever-increasing automotive supplier and vendor network; a stable economy; and a highly advantageous location. These companies are expanding operations and manufacturing and seeking to use more Hungarian components. Hungary has targeted increased investment in this sector as a primary goal.

Housing

In the wake of the government of Hungary's housing-construction support initiatives, housing construction grew by 5.8 percent over 1999 levels. The sub-sector of building structures and other edifices amounted to 60 percent of all construction and showed a moderate (2.6%) increase. However, the building-services engineering sub-sector achieved a growth of 8.2 percent and finishing activities (overcastting, rendering, joinery, floor covering, painting, glazing etc.) increased by 8.6 percent.

Services

The presence of a wide range of U.S. and international service providers in virtually all areas demonstrates the potential of the Hungarian market and its openness to foreign providers. Opportunities exist both for further penetration of the market through the acquisition of new customers (i.e., franchise, Internet) as well as the introduction of new or higher quality services for existing customers (i.e., e-commerce, environmental services).

The following eight broad service areas represent expanding or new market opportunities for U.S. firms, with numerous discrete sub-sectors included: (1) Travel and Tourism Services; (2) ACE - Architecture/Construction/Engineering Services; (3) Franchising; (4) Financial Services; (5) Telecommunications Services; (6) Internet Services; (7) Environmental Services – Pollution Control; and (8) Education and Training Services.

C. Government Role in the Economy

Since 1989, the private sector in Hungary has grown from approximately 20 percent to over 80 percent of GDP. The socialist-led government of 1994-1998 accelerated the privatization process, with significant progress in 1995-1997, notably in energy, banking and telecommunications. Some 1,700 of 2,000 state-owned companies were privatized between 1989 and 1999, with another 79 firms still to go. With foreign direct investment from the cash privatization of state-owned companies declining, the government has prioritized attracting greenfield investments to Hungary. The Ministry of Economic Affairs established the Hungarian Investment and Trade Development Agency (ITDH) in 1993 to promote investment in Hungary and this agency continues to help companies looking to make major investments in the country.

The Hungarian government budget has been under 50 percent of GDP since 1997 and this figure is expected to drop below 45 percent by the year 2002. The current account deficit of nearly USD 1.9 billion (3.3 percent of GDP) in 2000 was better than expected despite substantially increased energy prices but is expected to rise slightly in 2001.

Under the Government of Hungary's new economic development initiative, the Szechenyi Plan, central funds will be used to stimulate five major areas: housing; bridge and highway construction; development of the small and medium-sized enterprise sector; increased tourism; and increased innovation and R&D (particularly in the field of information technology). The Hungarian government has characterized the funding as "seed money", and has challenged the private sector to target these areas for investment as well.

Since January 2001, the Hungarian government has approved 1,391 tender applications, handing out a total of HUF 28.7 billion (USD 100 million) in grants under the Szechenyi Plan. The Ministry of Economic Affairs manages four of the seven programs in the plan, for which it invited 55 tenders. Of these, the most popular were the tenders for energy-saving developments and investments, followed by enterprise and tourism development. The largest proportion of applicants (37%) consisted of private companies, while 35 percent of the applicants were individuals and 15 percent local governments. One quarter of all applications arrived from the central region of the country (Budapest and Pest County), with Budapest-based organizations handing in the most requests for Szechenyi Plan incentives (655).

D. Balance-of-Payments Situation

After declining to a 20-year low of USD 987 million (2.2 percent of GDP) in 1997, the current account deficit widened in 1998 to USD 2.3 billion (5 percent of GDP) and contracted slightly in 1999 to 2.1 billion (4.3 percent of GDP). This improved greatly in 2000, as the current account closed with a deficit of USD 1.5 billion (3.3 percent of GDP). The first five months of 2001 have shown a current account deficit of USD 430 million.

E. Adequacy of Infrastructure

Hungary has a relatively developed western-style business infrastructure available at one of the lowest costs in Central and Eastern Europe. Most businesses are headquartered in and around the capital city, Budapest, where about 2.5 million people or twenty-five percent of the country's population live. There are well-established transportation, communication, banking, insurance, accounting, and legal systems in Hungary, especially in Budapest.

The Hungarian transportation infrastructure is currently undergoing major government-supported reconstruction to extend the construction of four-lane highways, which currently cover only a part of the country. The Hungarian state-run domestic railway system is widely used for industrial shipping due to its low cost and high reliability. Hungary's major airport, Ferihegy, is located in Budapest. The airport currently operates from two modern terminals. Budapest is serviced by numerous major international airlines, with strong growth in the charter air service market to closer destinations in the region. Regular domestic air service was reestablished in the summer of 2000, connecting the capital of Budapest with Miskolc, a major industrial city in Eastern Hungary, in order to assist the further development of this part of Hungary. Larger cities maintain airports for private aircraft and development plans are close to the implementation phase for transforming several former Soviet military air bases into domestic passenger and cargo airfields.

Hungary now has a highly developed telecommunications system and the choice of 450, 900, or 1,800 MHz mobile service with 100 percent physical coverage. MATAV, the national telephone company, holds a monopoly on international calling and several local service areas until December 2001, at which time several companies are expected to offer competitive service. There are about 30 Internet Service Providers (ISPs) in Hungary. The Hungarian government has recently identified information technologies as one of the priority economic sectors to develop and is dedicating significant budget resources to bring businesses, government and homes online.

F. Regional Economic Integration

Hungary is working toward becoming a member of the European Union, and strongly wants to be able to join the EU by 2004 or 2005. So far Hungary has closed 22 out of 30 Acquis Chapters, all of which must be negotiated prior to accession to the EU. Membership in the EU will strengthen already major trading ties with the rest of Europe. Currently seventy-five percent of Hungary's exports are shipped to EU member countries.

Hungary is a member of the European Free Trade Area (EFTA) and the Central European Free Trade Area (CEFTA) of the Czech Republic, Poland, Slovenia, Romania, and Slovakia. It has also signed bilateral free trade agreements with Israel, Turkey, Croatia, and Estonia.

Chapter 3. Political Environment

A. Political Relationship with the United States

Bilateral relations between the United States and Hungary are excellent. Hungary strongly supports Euro-Atlantic integration and maintains a close relationship with the United States. The major political parties in Hungary and the Hungarian public as a whole continue to move quickly towards integration with western political, economic and security institutions. Hungary became a member of NATO in March 1999 and expects to accede to the European Union in 2004 or 2005. The United States encouraged Hungary’s entry into the OECD and supports Hungary’s bid for EU membership.

B. Major Issues Affecting the Business Climate for American Products and Services

Hungary's near-term entry into the EU offers both opportunities and challenges for U.S. businesses. In the area of opportunities, Hungary is now providing an excellent base to many American companies looking to service not only EU markets but also the markets of Central and Eastern Europe. American companies have invested about USD 8 Billion in many industrial sectors, including the automotive industry, general machine-tool industry, IT industry and banking and insurance industries. There has also been a steady increase in the number of American exporters concluding agent/distributor relationships with Hungarian companies. Meanwhile the Hungarian domestic market continues to demand more American goods and services not only for its own consumption but also to ship to its surrounding markets.

In the area of challenges, most notably until Hungary adopts the EU Common External Tariff (CXT) and a "Mutual Recognition Agreement" (MRA) with the United States, the EU accession process translates into tariff and other trade related advantages for EU members in comparison to U.S. exporters. The tariff differential between EU and US products can range from a few percent to over 75 percent. With the strong US dollar, extra shipping costs from the United States and several other factors in play, even a tariff differential of a few percent can sometimes be a large obstacle for American exporter to overcome. Moreover, Hungary's MRA with the European Union means that most of its products will be harmonized to EU standards. However, until Hungary becomes a full EU member, most products that U.S. companies export to Hungary must meet Hungarian standards as opposed to EU ones. Only after Hungary becomes a full EU member will the MRA between the EU and the United States become applicable – unless in the meantime Hungary signs a separate MRA with the United States.

Nonetheless, Hungary is providing U.S. companies that establish value-added production investments in the country with an excellent platform for easier product entry into profitable Western European markets. The Hungarian government is well aware of the benefits that foreign direct investment provides and is actively promoting incentive programs that attract multinational companies to Hungary, particularly to less-developed regions of the country.

With Hungarian elections scheduled for the spring of 2002, all major parties are focused on the election campaign. Therefore, high-visibility matters that could possibly affect voter decisions are now less likely to be made by both the governing coalition and the opposition parties. Recently, there has been some differentiation between large and small firms in various governmental policies. For example, in an effort to keep consumer natural gas prices at a lower rate and moderate inflation, the Hungarian government announced a 46 percent increase for large industrial users (i.e., mostly multi-national companies) of natural gas. Granted, this increase means that the companies are still paying less than the average world market price for natural gas, but such instances are impacting the market system and making some domestic Hungarian companies less attractive to institutional investors and more likely targets of unsolicited suitors. In general, all the major Hungarian political parties are concentrating on election issues because polls indicate that the major parties are running neck-to-neck in their bids to become part of a governing coalition in spring of 2002. This election has the distinction that one of the major political parties will have the opportunity to have a second term as governing party. Since 1989 there have been three elections in which a different political party led a governing coalition. Most likely 2002 will see one of these three major parties have a second term in office.

Another issue affecting business in relation to the upcoming election is that of construction and the Szechenyi Development plan. Although the leading candidate in the opposition party stated that there should be continuity in this important development plan, it is uncertain if all projects started by the current government would be continued if there were a change of government in the next election.

Although some of the major, high-visibility issues are being affected by the upcoming elections in April/May 2002, trade and investment with and in Hungary continues at a steady strong pace.

C. Brief Synopsis of the Political System

Hungary is a stable, multi-party parliamentary democracy. According to the Constitution, state power rests in the 386-seat Parliament. The Parliament has the authority to propose, review, adopt or reject all legislation, and can override presidential vetoes. A political party must receive at least 5 percent of all votes to gain representation in Parliament. The Government consists of the Prime Minister (currently Viktor Orban), who is elected by a majority of the Members of Parliament, and a Council of Ministers. The President of the Republic (currently Ferenc Madl), upon the Prime Minister's recommendation, appoints the Ministers. The Prime Minister chairs the Council of Ministers and is the government's chief executive official.

Executive power rests in the Cabinet, headed by the Prime Minister. Various Ministries are divided up between the coalition partners according to their share in the parliamentary mandates (elections). The President, elected separately by Parliament to an independent five-year term, is the Head of State. The President has limited, largely ceremonial powers, and serves as a symbol of national unity. However, the President's role in issuing laws gives him the ability to return legislation to Parliament for further debate or to forward it to the constitutional court if he deems any of its provision unconstitutional. The President also bears the title of Commander-in-Chief of the armed forces.

The current majority coalition government, made up of the center-right Fidesz-Hungarian Civic Party (FIDESZ), the Hungarian Democratic Forum (MDF), and the Independent Smallholder's Party (KFGP), was elected in 1998. The opposition is primarily comprised of the center-left Hungarian Socialist Party (MSZP) and Alliance for Free Democrats (SZDSZ). Another opposition party is the far-right Hungarian Justice and Life Party (MIEP), which gained parliamentary representation for the first time in 1998 with a five- percent electoral showing. With Parliamentary elections scheduled for April/May 2002, it has recently become more difficult for the various political parties to come to agreement on some outstanding significant issues affecting major business decisions of domestic and foreign companies; meanwhile regular business transactions like agent-distributor agreements, import and export transactions, investments, etc. proceed along normal lines. A listing of the main political parties and their party leaders is as follows:

Main Political Parties	Party Leaders
Alliance of Free Democrats or SZDSZ	Gabor KUNCZE, Chairman

Christian Democratic People's Party or KDNP	Tivadar BARTOK, Chairman
Hungarian Civic Party or FIDESZ	Zoltan POKORNI, Chairman
Hungarian Democratic Forum or MDF	Ibolya DAVID, Chairman
Hungarian Democratic People's Party or MDNP	Erzsebet PUSZTAI, Chairman
Hungarian Justice and Life Party or MIEP	Istvan CSURKA, Chairman
Hungarian Socialist Party or MSZP	Laszlo KOVACS, Chairman
Hungarian Workers' Party or MMP	Gyula THURMER, Chairman
Independent Smallholders or FKGP	Jozsef TORGYAN, President

Below you will find a chart listing each of the Hungarian Ministries and the name of the current minister.

Ministries	Ministers
Prime Minister	Mr. Viktor Orban
Prime Minister’s Office	Dr. Istvan Stumpf
Ministry of Interior	Dr. Sandor Pinter
Ministry of Foreign Affairs	Dr. Janos Martonyi
Ministry of Economic Affairs	Dr. Gyorgy Matolcsy
Ministry of Finance	Mr. Mihaly Varga
Ministry of Justice	Dr. Ibolya David
Ministry of Agriculture and Regional Development	Mr. Andras Vonza
Ministry of Health	Dr. Istvan Mikola
Ministry of Environment	Mr. Bela Turi-Kovacs
Ministry of Transport & Water Management	Dr. Janos Fonagy
Ministry of Education	Dr. Jozsef Palinkas
Ministry of National Cultural Heritage	Mr. Zoltan Rockenbauer
Ministry of Defense	Dr. Janos Szabo
Ministry of Social and Family Affairs	Mr. Peter Harrach
Ministry of Youth and Sports	Mr. Tamas Deutsch

Chapter 4. Marketing U.S. Products and Services

A. Distribution and Sales Channels

Hungary is a country of 10 million residents in an area approximately the size of the state of Indiana. More than two million people live in and around the capital city of Budapest, where most business and trade is concentrated, while production is primarily outside the capital. Budapest is also becoming the city of choice for establishing Central and/or Southeast European headquarters for more and more multinationals (e.g., GM/Opel, Pepsico, Compaq, AIG/Lincoln, etc.). Along with Budapest, the ten largest cities (with population figures) in Hungary are Debrecen (204,000), Miskolc (172,000), Szeged (158,000), Pecs (157,000), Gyor (127,000), Nyiregyhaza (112,000), Kecskemet (106,000), Szekesfehervar (105,000), and Szombathely (81,000). Source: Hungarian Statistics Office, 2000 Pocket Year Book. .

Retail and wholesale distribution is developing toward western standards in Hungary combined with certain local specialties. Due to the relatively young, thin and undercapitalized local trading company structure, it is not unusual for retailing and wholesaling to be combined. As a result of the hardships of the country's economic transition, the buying power of the middle class had been decreasing until recently. This has supported the development of low-cost and flat distribution structures. To date, the middle sections of the distribution pyramid - stocking distributors, mass merchandisers and jobbers - have not fully developed for many product groups. The prospering companies of this segment are typically wholly owned subsidiaries of European/American manufacturers or major chains (e.g., Tesco, Cora, Brico, Office Depot, etc.). A typical distribution channel in Hungary starts with the importer-wholesaler, which may directly service the retailer or the end-user. Hungarian agents or distributors typically look to the foreign partner to provide marketing and promotional support, training and financing.

Competition in the consumer goods sector is intense in Hungary. While brand name recognition is important, it is a great challenge for U.S. firms to develop brand images and loyalty, as the market is overwhelmed by hundreds of new products.

The retail sector is characterized by very small entrepreneurial, "mom-and-pop" stores, which have opened in the past ten years. There are thousands of such small retail outlets across the country, posing logistical challenges for distributors. However, Budapest's retail sector is clearly dominated by larger department stores and supermarkets, with small family-run stores being most common in the rural areas. Examples of foreign chains with operations in Hungary include Auchan (France), Metro (Germany), KIKA (Austria), Ikea (Sweden), Baumax (Germany), OBI (Germany), Humanic (Austria), Smatch (Belgium), Penny Market (UK), Cora (France), Marks & Spencer (UK), and Tesco (UK). Indoor shopping malls have rapidly expanded throughout the Budapest capital area, as well as other major cities. The largest mall complex in Central Europe, West End City Center, was opened in 1999 in central Budapest with construction of MOM Park, another large facility in Budapest slated for completion in late 2001. In other larger cities smaller shopping malls are just starting to be developed.

Hungary is still largely a cash economy. However, banks are increasing the issuance of credit cards. Checks are almost unheard of. Most payments for regular transactions, if not cash, are made by wire transfer. There is a large network of automatic teller machines (ATMs) throughout Hungary.

B. Use of Agents and Distributors

The use of distributors or local agents is recommended in those instances when establishing a sales subsidiary is not feasible. Most European competitors of U.S. companies choose to open wholly owned sales or distribution subsidiaries in Hungary, providing stronger financial and managerial support and geographical exclusivity coupled with full control in the distribution of products in general. This system for market penetration stems from the traditional European business expansion methodology of the pre-world war era.

Existing lines of distribution for a particular product often have not yet been established in Hungary. There are many firms that have the expertise and product–knowledge to distribute products; however, they may be fairly new to acting as a distributor. These firms are typically small without company literature and brochures. This is characteristic of the entrepreneurial spirit in Hungary where a firm typically employs less than 50 people.

Distributors can provide strategic support for the positioning of the brand in the market through advertising and promotion; they understand the local culture and can assist with after-sales services. This value-added service is increasingly important for customers and contributes to creating a positive image for the U.S. firm doing business abroad. For historic reasons, heavy trading competition and the relatively small size of the Hungarian market, many distributors will ask for some kind of exclusivity. This custom should not necessarily discourage U.S. exporters from negotiating further, but regional or nationwide exclusivity could be tied to certain sales levels to be reached in a mutually agreed trial period. Hungarian trade fairs, which have become more and more specific in scope, are a good place to look for possible distributors.

Still, most Hungarian companies prefer to be an agent on a commission basis because they do not have the financial resources necessary to carry stock due to the high cost of capital in Hungary. An agent or representative (equivalent to the U.S. sales agent) acts on behalf of its principal and promotes the principal's business without actually taking title or any financial risk. Agents typically earn a 5-8 percent commission or fee on sales in Hungary in contrast to distributors who typically use higher margins depending on the industry. Use of agents is the most widespread in the more capital- and technical expertise-intensive machining, tooling and heavy industrial sectors, where skilled older engineers with a good understanding of the local market are usually readily available to represent U.S. exporters.

In order for a U.S. company to decide what form of representation best suits them, they should consider the degree of leverage they can exert over the following variables: price control, channel network, policy, operational expenses and after-sales service.

The Commercial Service of the U.S. Embassy can provide a head start to firms seeking an agent or distributor in Hungary through its International Partner Search (IPS) or Gold Key Service program. Further information can be obtained by visiting the Commercial Service’s website at http://www.usatrade.gov or by contacting Department of Commerce District Offices in major cities in the United States or the Commercial Service in Budapest (see contact numbers at end of this Guide).

C. Franchising

Currently, there are approximately 400 franchise operations in Hungary, half of which are foreign owned. Fast-food franchisers, such as McDonald's, Pizza Hut, and Kentucky Fried Chicken have been rather successful. Porst Foto (a German film developing chain), Eastman Kodak, and car rental companies like Hertz are also well established.

Selling sub-franchises, providing financing, setting lower master franchise fees or using foreign master franchisees is the key to succeeding in the Hungarian franchise market. Franchising is still relatively underdeveloped in Hungary compared to U.S. or West European standards. As a proportion of the retail sector, it lags considerably behind the United States, Japan, and the EU. Inefficiencies in the delivery of goods and services and a developing middle class suggest that there are significant opportunities in franchising.

One obstacle to the development of franchising in Hungary is the lack of personal capital or access to credit. Therefore, perhaps the best franchising models for the Hungarian market are home-based, lower capital franchises that focus on the well-educated, highly motivated Hungarians who already possess a natural inclination toward small-scale entrepreneurship but lack financing.

D. Direct Marketing

Direct selling, though comparatively underdeveloped, is an accepted form of business in Hungary. Direct marketing through the Internet is also a growing trend in Hungary. In order to decrease risks on the part of the buyers, to assist the consumers in understanding the advantages of direct selling, and to recognize trustworthy companies, an association was founded in April 1993. The Hungarian Direct Selling Association (DSA) is a member of the Federation of European Direct Selling Associations (FEDSA) and also affiliated to the World Federation of Direct Selling Associations (WFDSA). The member companies include AMC Hungary Kft., Amway Hungaria Marketing Kft., Avon Cosmetics Hungary Kft., Clarion Rt., Golden Neo-Life Diamite Int'l Kft., Lux Hungaria Kft., Oriflame Hungary Cosmetics Kft., Sunrider Hungary Kft., and Tupperware Trading Kft.

All members of DSA have pledged to honor the Association's Code of Conduct which requires fair treatment vis-à-vis the customers. See Chapter 11, section C for the Association's contact information.

E. Forms of Business

As part of Hungary's efforts to harmonize its regulations with the EU, substantial changes to the laws affecting business entities were introduced in 1997. These changes included the introduction of a new Companies Act (Act CXLIV of 1997), an Act on the Registration of Companies (Act CXLV of 1997) and an Act on Branches and Representative Offices (Act CXXXII of 1997). The new Companies Act came into effect on June 16, 1998.

The following six types of entities ("companies") are available under the Companies Act, each of which can be 100 percent foreign owned and managed.

1. Company limited by shares (Reszvenytarsasag—Rt).
- A "company limited by share" (Rt) can be either a public or private company. The minimum share capital for an Rt is HUF 20 million. (USD 70,922).

2. Limited liability company (Korlatolt felelossegu tarsasag—Kft).
- A "limited liability company" (Kft) is the most popular form for foreign investors. The share capital of the Kft is minimum HUF 3 million (USD 10,628). This may consist of both cash contributions and contributions in kind. The minimum cash contribution for founding a Kft is HUF 1 million (USD 3,543) or 30 percent of the share capital.

3. General partnership (Kozkereseti tarsasag—Kkt).
- The Companies Act does not limit the number of partners in a partnership, provided there are at least two. There are no maximum or minimum capital limits.

4. Limited partnership (Beteti tarsasag—Bt).

- A limited partnership must have at least one unlimited partner.

5. Trade association (Egyesules).

6. Joint enterprise (Kozos vallalat—Kv).

The most substantial change from the perspective of a foreign investor is that foreign corporations may now establish branch operations. The Act on Branches and Representative Offices (Act CXXXII of 1997), in effect since July 1998, allows the formation of branch offices of foreign companies. These companies may conduct full-scope business activities, such as trading, contracting, manufacturing and rendering of services. However, the Act limits the scope of activities of Representative Offices to those of an auxiliary or supplementary nature (i.e., mediation and marketing) and disallows the establishment of Information and Service Offices. Information and Service Offices established prior to December 31, 1997 had the opportunity to change their form to representative office by December 31, 1999. If they failed to do so, they were cancelled from the Company Register.

Since January 1, 1994, the establishment of offshore companies has also been permitted in Hungary. Under the law on corporate taxation, offshore companies enjoy a 97 percent tax preference. An offshore company must be a limited liability company or shareholders' company registered in Hungary, and must be wholly foreign owned. In addition, the company must not offer goods or services for sale in Hungary and Hungarian tax residents must fill the majority of the management positions within the company.

F. Joint Ventures/Licensing

The establishment and operation of joint ventures in Hungary has been permitted since 1972. The foundation of companies operating with foreign participation is subject essentially to the same treatment as that of exclusively Hungarian-owned companies. In 1989, the earlier licensing procedure was abolished and today it is sufficient to have the company simply incorporated with the Court of Registration. Foreign investors are allowed to purchase shares in Hungarian firms up to 100 percent majority participation. However, most joint ventures between U.S. and Hungarian partners are initially formed with the U.S. partner holding a minority share. Joint ventures and wholly foreign-owned ventures (as all businesses in Hungary) are entitled to pursue foreign trade activities.

G. Steps to Establishing an Office

Registration of companies has become somewhat simpler under the Act on the Registration of Companies (Act CXLV of 1997). The new process is quicker and more efficient. For example, the new registration process allows companies to request tax and social security numbers at the same time they file the documents at the Court of Registration.

The registration application must be filed with the appropriate Hungarian Court of Registration within 30 days following the signing of the statutes. If an official license is required for the establishment of the company, it must be attached to the application form. The court must decide on the application within sixty days. If the court fails to do so, the company will automatically be registered on the seventieth day from the day of application. If the court rejects the application, the company must terminate its operation and its members are liable for its debts.

Before registration is complete, but after an attorney at law or a notary public has countersigned the statutes, the company can operate as a “pre-company.” A pre-company may pursue business activities only after the application for registration has been submitted. Further, it may not pursue activities requiring an official license until the registration is complete. During the pre-company stage, the company cannot change its membership, alter the statutes, or initiate legal proceedings to exclude a member, resolve on termination without a legal successor, change its legal form, or merge into or with another company.

U.S. entities planning to set up businesses in Hungary are advised to consult with an experienced attorney and accounting firm. (Lists of law and accounting firms may be obtained from the U.S. Embassy's commercial section.) In addition, it should be noted that obtaining and renewing work and residence permits has become increasingly onerous as the government attempts to crack down on illegal residents. U.S. businesses are urged to hire a law or accounting firm or a company that specializes in this type of work to assist with the process.

H. Selling Factors/Techniques

Success in the Hungarian market is extremely difficult without an in-country representative, whether it is an agent, distributor, or representative office. Letters, faxes, websites and packages of product literature will introduce a product or service. Hungarian language communication is recommended for speediest response. U.S. companies should make an effort to make sure that the translation of their company brochures, product literature and general introductory materials is done by professional translators.

The U.S. exporter should be aware that access to capital in Hungary is difficult for many Hungarian firms. With inflation at almost 10 percent (in 2000) and bank loans still at 16-26 percent, it is difficult for Hungarian companies and customers to finance purchases through a Hungarian bank. Most Hungarian firms are still too small to consider going public or issuing commercial paper. Therefore most business activities, including payment for imports, are still self-financed. U.S. companies that can guide their customers to affordable financing (e.g., U.S. Ex-Im Bank) have better chances in competing with EU exporters, who come prepared for this situation and generally offer 60-day terms to their customers.

Hungarian customers are generally enthusiastic about U.S. products but, as in most regions, doing business in Hungary is built upon personal relationships and trust. Therefore, it is strongly recommended for the U.S. exporter to visit their potential customer when presenting a proposal. The Commercial Service in Budapest is prepared to perform pre-screening of export market potential in Hungary for U.S. firms prior to their committing resources to a business trip. If a sales proposal is well thought out, the pricing is flexible (or assistance with locating and arranging financing is offered), and promotion, servicing and customer support is part of the package, chances are good that a contract will ultimately be written.

I. Advertising and Trade Promotion

Trade promotion is a critical part of success in the Hungarian market. Participation in trade shows and trade/scientific seminars (both international and local) is recommended. Use of scientific/information papers in industry association magazines and trade journals is another effective tool for informing the Hungarian market about your product. Co-operation with universities, colleges, and technical universities is also a popular type of trade promotion in Hungary.

Fairs in computers, environmental, automotive, agri-business, consumer goods, and building products have grown in popularity in recent years.

Advertising in Hungary is critical especially in the consumer products field. Hungarian purchasing decisions are increasingly subject to sophisticated print and electronic media techniques. Most large Hungarian firms engage in some form of advertising. The most popular media (in order of preference) are television (42%), print media (42%), outdoor billboards/signs (8%), radio (7%), and movie spots (<1%). The Competition Law prohibits advertisements that mislead consumers or endanger the reputation of competitors. The Advertising Law, passed in June 1997, liberalized advertising, including lifting a ban on advertising alcohol and tobacco. New restrictions on the advertisement and promotion of pharmaceuticals (effective June 16, 2001) will ban advertising of prescription drugs, vaccines and dietary supplements, as well as over-the-counter preparations that are subsidized from social security funds.

LIST OF NEWSPAPERS/PERIODICALS

Major Dailies:

Napi Gazdasag (Daily Economy)
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J. Pricing Issues

Pricing is a key factor in selling a product in Hungary, as the market is very price sensitive. The most common complaint about U.S. products continues to be that the price is too high. Pricing products of U.S. origin is complicated by the additional customs duties, 25 percent Value Added Tax (VAT), and in some cases, an excise taxes (35% on gold, 10-32% on cars, 12% on coffee, 11% on wine) which elevate the retail price dramatically. Note there is a reduced VAT of 12 percent for food, books, hotel accommodations, electricity, gas, heating and water supply services, and a zero VAT for some goods such as registered medicine, vitamins, oxygen, and text books.

Flexibility is the key to your pricing strategy in order to penetrate the market. Successful U.S. exporters work together with their Hungarian representatives to keep costs, particularly import costs, as low as possible (for example, some companies ship products unassembled when it results in lower duties or offer favorable financing with the help of the U.S. Ex-Im Bank).

Although state subsidies and price controls for many products have been eliminated, the Hungarian Government continues to subsidize basic services such as utilities, mass transportation and pharmaceutical products.

K. Sales Service/Customer Support

After-market sales service and customer support is a vital part of your sales package in Hungary. Due to the distance between the United States and Hungary, a potential customer may choose a EU or locally-produced product because of their concerns regarding obtaining replacement parts in a timely manner should the product require servicing.

U.S. firms should consider stocking replacement parts or establishing servicing arrangements in Hungary in order to offer the same or better service than other vendors. Shipping a product back to the United States for repair or service, even if paid for by the U.S. company, is not generally a preferred option for Hungarian customers.

L. Selling to the Government

The Act on Public Procurement of 1995 requires open tenders for government purchases of goods exceeding HUF 16 million (USD 56,683); for services over HUF 8 million (USD 28,342); and, for construction over HUF 32 million (USD 113,367). Although these requirements and a subsequent amendment to the Act to simplify the public procurement process, clarify contradictory stipulations and expand the authority of the Public Procurement Commisssion of Arbitrators in dispute settlement have led to greater transparency and fairness in government procurement, some concerns remain in these areas.

In a recent report the European Commission acknowledged Hungary's efforts in harmonizing its basic principles of public procurement regulations to that of the European Union. The procurement announcements and decisions by the Commission of Arbitrators are published regularly in the weekly journal Kozbeszerzesi Ertesito (Public Procurement Review).

Centralized Procurement Process: In addition to being governed by the above general rules for open and transparent public procurement, the over 1000 institutions that receive financing from the Hungarian central budget (government offices, educational institutions, hospitals, etc.) are typically required to select from a centralized list of specific products and vendors in major procurement categories. These include products such as computer hardware, software and services, automobiles, office furniture and supplies etc. More information on upcoming tenders for vendors in these product categories can be obtained from the Hungarian government's Public Procurement and Economics Directorate. An online list (in Hungarian) of the products and vendors currently on the public procurement list can be obtained at www.kozbeszerzes.gov.hu/hirek/ujk.html.

M. Need for a Local Attorney/Accountant

As a standard practice, legal counsel should be retained when engaging in business in Hungary. All legal work in Hungary must be completed by attorneys who are accredited to practice law in Hungary. Many contracts require notarization as well. Several leading U.S. law firms maintain representational offices in Hungary and provide a wide range of services for their clients. An experienced accounting firm should be consulted as well.

Lists of accounting and law firms may be obtained from the U.S. Embassy's commercial and consular sections.

N. Performing Due Diligence/Checking Bona Fides of Banks/Agents/Customers

The Act on Credit Institution regulates the credit check procedure. Banks are required to be linked to the Inter-bank Debtor and Credit Information System (BAR), provided by BISZ Rt, which is a database built on central registration system. According to the law the system handles the credit data and contracts of both corporations and private individuals.

Through the Enhanced International Company Profile (EICP) service, the Commercial Section at the U.S. Embassy can provide financial and background information reports, as well as specialized research through the "Flexible Market Research" (FMR) report and "Client Facilitation" services. See the Commercial Section contacts within this guide for further information.

Chapter 5. Leading Sectors for U.S. Exports and Investment

A. Best Prospects for Non-Agricultural Goods and Services

1. Computers and Peripherals
2. Architectural/Construction/Engineering Services
3. Measuring/Scientific Devices
4. Internet Services
5. Medical Equipment – Healthcare Technology
6. Pollution Control
7. Travel and Tourism
8. Cosmetics and Toiletries
9. Agricultural Machinery
10. Pharmaceutical and Medicinal Products
11. Franchising
12. Electronic and Electrical Components of ADP and Electric Machinery

1. COMPUTERS AND PERIPHERALS (CPT)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL EXPORTS	2223	2371	2500
TOTAL IMPORTS	390	423	450
IMPORTS FROM THE U.S.	63	76	80

Unofficial estimates based on Hungarian Central Statistics Office data

The total size of the information technology market in Hungary was USD1.3 billion in 2000, the highest per capita amount in Central Europe. Driven by an expanding economy, the prospect of accession to the European Union, and high levels of foreign strategic investment, the IT market grew by 6.7 percent in 2000, with a growth rate of 8.9 percent projected for 2001 and 10-11.5 percent for 2002-2004. Significant investment continues in the government, financial services and telecommunications sectors.

In 2000, 213,000 PCs were sold amounting to USD240 million (7 percent growth over 1999). This growth rate fell behind expectations, but the 12 percent growth rate in 1Q 2001 gives ground for more optimism. The Hungarian PC market is influenced by the intensity of procurement of Hungarian SMEs and the state sector. The newly introduced Szechenyi development plan envisages spending USD59 million in 2001 and USD103 million in 2002 for computers, software, and data communications equipment. Brand names represent 56 percent of all computer sales, with the U.S. as the leading supplier. Based on their market share in 2000, the companies rank as follows: Compaq (18.8%), IBM (9.5%), Hewlett-Packard (9.2%), Albacomp (6.1%), DTK 4.9%, Dell (3.3%), Apple (2.6%), and Toshiba (2.0%).

Midrange servers can be considered as one of the best prospects. The server market totaled USD114 million in 2000 representing 8.7 percent of the total IT market. Leading suppliers are: Compaq (29.2%), HP (18.6%), IBM (17.3%), and Dell (3.7%). Competitors are: Albacomp, Acer, Fujitsu Siemens, and NEC with a market share of 1-2 percent. Source: Market information provided by IDC Hungary. Another best prospect is data communications equipment amounting to USD82 million in 2000, representing 6.8 percent of the total IT market.

2. ARCHITECTURE/CONSTRUCTION/ENGINEERING SERVICES (ACE)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL MARKET SIZE	1,900	2,200	2,500

Statistics based on industry sources.

Based on projections for a healthy construction market in Hungary, the demand for architecture, construction and engineering (ACE) services should be strong in the coming years. Construction market in Hungary increased by 5.8 percent in 2000 in part due to an expected increase (11.4 percent) in residential housing construction. Projections for 2001 and 2002 indicate an eight percent increase in the overall growth rate.

Official statistics are not available for Hungarian expenditures on architecture, construction and engineering services. However, industry sources estimate that, on average, forty percent of the total investment in a project is attributable to ACE. Using that factor and projected 2001 and 2002 project costs of USD6.2-7.1 billion per year, the ACE market in Hungary will be approximately USD 2.5-2.8 billion in those years.

Types of projects expected to receive financial support in general include civil engineering, environmental protection, infrastructure development, motorway construction, railway modernization, national communication system renovation, and sewage system restoration.

As part of the Hungarian government’s National Economic Plan (the “Szechenyi Plan” announced in April 2000), special attention and government funding will be provided for Motorway Construction Programs, Housing, and Tourism Infrastructure

In general, American companies enjoy a good reputation in Hungary. They are highly regarded for their experience and expertise in the service sectors. At the same time, U.S. companies should be aware of a strong competition created by Austrian, German, Italian and French companies that have local representatives in Hungary.

3. MEASURING/SCIENTIFIC EQUIPMENT (LAB)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL MARKET SIZE	89	110	120
TOTAL LOCAL PRODUCTION	15	17	20
TOTAL EXPORTS	10	12	15
TOTAL IMPORTS	84	105	115
IMPORTS FROM THE U.S.	11	11	13

As the product group is very diversified, the above statistics are unofficial estimates based on public information and interviews with industry experts.

The market for measuring/scientific equipment is dominated by imports with 80-90 percent of the total market. American products account about 10 percent of the sector's total imports. The estimated average growth rate of the Hungarian measuring instrument market for 2000-2002 is 4-5 percent annually.

As industrial output has risen so has the requirement for adequate measuring/analytical equipment. High-level quality control instruments are needed by all manufacturing sectors for exporting their products to competitive markets. The major users of measuring/analytical instruments are: electronic industry, hardware/software producers, automotive industry, and the food/canning industries, etc. To meet EU directives/standards, demand for environmental instruments is also on the rise. Hungary has been well known for its R&D activities during the last decades, therefore research institutes and universities are also important end-users. U.S. companies with EU subsidiaries can also participate in EU-funded projects for public institutions (like Public Health Labs, Plant/Animal Health Labs).

When purchasing measuring equipment, customers look for established companies with reliable after-sales service and maintenance. Analytical instruments are marketed in Hungary mainly through local distributors. Leasing has little tradition in Hungary. Third country competitors include German, Austrian, Italian and Japanese firms.

Measuring equipment is subject to an obligatory licensing/registration procedure prior to entering the market. Hungary and the EU recently signed a mutual recognition agreement for accepting testing by each other's notified bodies. This agreement does not apply to third-countries, therefore, manufacturers from the United States should inquire about their specific needs prior to starting to market their products in Hungary.

4. INTERNET SERVICES (CSV)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL SALES	35	53	71

Statistics based on industry sources.

According to a June 2001 NetSurvey report, 16.3 percent of the Hungarian population can access the Internet and 10.7 percent regularly do so. The number of private internet subscribers grew by 35 percent from 1999 to 2000 and is expected to increase by 25 percent in 2001 while the growth rate of internet services revenue is expected to reach 35 percent in 2001. The Hungarian government has identified information technologies (IT) as a priority economic sector and is actively considering measures to support business and individual access to IT including direct spending of USD59 million in 2001 and USD103 million in 2002.

About thirty Internet Service Providers (ISPs) provide access services to the approximately 235,000 dial-up subscribers and to corporate accounts through VSAT, ISDN or managed leased lines. Three major ISPs: Axelero, PSINet Elender, and GTS Datanet cover the majority of the market. New entrants into the Hungarian ISP market are Nextra, Worldcom, Chello Broadband Hungary Kft., (a United Pan-Europe Communications (UPC) company) and the two ISPs providing free Internet access, FreeStart Communications Rt. and Kiwwi Communications Rt. Cable TV companies are also beginning to penetrate the Internet market. Chello's services will be available throughout UPC Hungary's cable network (530,000 households) within 12-18 months and Chello expects to have 15,000 subscribers by the end of 2001.

<u>Business-to-Consumer (B2C) E-commerce</u>

There are currently about 150 Hungarian companies selling their products over the Internet. In 2000, the estimated size of this type of commerce was HUF 1.1 billion (USD 3.6 million). The twenty largest virtual shops account for the majority of this turnover. B2C transactions are expected to reach USD 150 million in 2004 according to International Data Corporation (IDC) estimates.

The primary products available on B2C e-commerce websites are books, music, stock trading, stationery, electronics and gifts. Ninety-four percent of Internet stores use the Hungarian Postal service for home delivery of their products. Over 85 percent of B2C purchases are transacted with payment collected on delivery.

<u>Business-to-Business (B2B) E-commerce</u>

According to a survey by Carnation Strategic Internet consulting, B2B E-commerce in Hungary is transacted almost exclusively through EDI systems. EDI was introduced in Hungary in 1996, had 400 users by the end of 1999, and may reach 1,500 applications in 2002. These are mainly in the retail, automotive, and "Fast Moving Consumer Goods" sectors. It is expected that over the next three years, Internet based solutions (WEB-EDI and Internet/ EDI systems) will obtain a larger share of B2B transactions. According to estimations, in 4-5 years time 30 percent of all indirect (products not directly related to manufacturing) procurement will be transacted electronically amounting to HUF 150 billion (USD 535 million).

Hungary's first B2B electronic marketplace was established in September of 2000. In October 2000, a horizontal marketplace called "First Hungarian E-Market Co. Ltd" for the sale of IT and office equipment and services was established. In November 2000, the test run of a vertical e-marketplace of pharmaceuticals called PharmaLink was begun. Five groups offer web-based auction services in Hungary. One obstacle to the faster growth of e-commerce was lifted by the recent passage of a law permitting e-signatures.

As Internet services and usage are still in the early stages of development in Hungary there is significant opportunity for U.S. and other companies across the entire range. Web content, website design, and website hosting offer excellent possibilities but commercial applications like advertising, auctions and transaction processing services are areas that are currently underdeveloped and likely to experience rapid growth in the next several years.

5. MEDICAL EQUIPMENT – HEALTHCARE TECHNOLOGY (MED)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL MARKET SIZE	144	148	155
TOTAL LOCAL PRODUCTION	77	82	90
TOTAL EXPORTS	70	75	80
TOTAL IMPORTS	137	141	145
IMPORTS FROM THE U.S.	10	13	15

The above statistics are unofficial estimates based on interviews with Ministry of Health and industry experts

The market for medical equipment is dominated by imports, which account for over 85 percent of the total market. American medical products make up approximately 10 percent of the sector's total imports. The estimated average growth rate of the Hungarian medical equipment market for 2000-2002 is 3-4 percent annually. The medical market is very competitive.

Hungary's health care system is under-funded, still dominated by the state and operated on the basis of dual financing. Equipment purchases and other major investments are financed by the owners or co-financed with the Healthcare Ministry from the central budget. The owners of the in/out- patient clinics are the local governments, the Ministry of Health and other Ministries or Churches/organizations. All current expenditures of the daily operations, including disposables, are financed by the National Health Insurance Fund on the basis of the German-type DRG-system (diagnostic related group). There is only one private hospital in the country and HMOs are in a very early stage of development.

When purchasing medical equipment, customers look for established companies with reliable after-sales service and maintenance. Institutions have more or less a free hand within their budget to decide what to buy and where to buy. Medical products are marketed in Hungary mainly through local distributors. Leasing of medical equipment has not been a long-held tradition in Hungary. Also, the Hungarian medical sector is not very receptive to purchasing used/refurbished medical equipment

The best sales prospects for U.S. medical equipment in the coming years are expected to be in the following areas: Cardiovascular and nuclear medicine (diagnostic &

therapy equipment); Diagnostic equipment & surgical devices; Diagnostic imaging (CTs, MRIs); Laboratory diagnostic equipment; and Health care information systems.

The Act of Public Procurement of 1995 requires open tenders for all purchases of goods exceeding USD 50,000 and for services over USD 2,500. The Act applies to most clinics as they are publicly owned.

Third country competitors include German, Austrian, Italian and Japanese firms, some of them have been present in the market for several decades.

All medical equipment and products, both local and imported, are subject to an obligatory licensing/registration procedure prior to entering the market. Hungary and the EU recently signed a mutual recognition agreement for accepting testing by each other's notified bodies. This agreement does not apply to third-countries, therefore, manufacturers from the United States must have their CE-marked product "re-certified" by ORKI prior to initial entry into Hungary.

6. POLLUTION CONTROL (POL)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	2000	2001
TOTAL MARKET SIZE	4,880	5,280

Statistics provided by the Ministry of Environment.

European Union accession requirements have increased the importance of environmental issues in Hungary's economic planning. This has created unprecedented opportunity for environmental technology and service providers who can supply solutions to Hungary's environmental concerns.
The main environmental issues are the following: wastewater treatment (USD 4.2 billion market), waste management (USD 1 billion), and air pollution control (USD 80 million).

The major customers for wastewater treatment and waste management services are the Hungarian municipalities. Currently, over 50 percent of households are not connected to a sewage system and the country has almost as many landfills as settlements – most of them not meeting environmental requirements. Although the central government - as well as the local governments - clearly understands the importance of solving these problems, funding for such environmental projects is limited.

The other potential buyer of environmental services is industry. Unfortunately, while strict environmental regulations exist in Hungary, enforcement is not really strong. Although more and more companies understand the need for cleaner production to be competitive in the market, sometimes it's cheaper for them to pay the fines rather than investing in environmental projects.

Currently there are less than fifteen U.S. environmental companies in Hungary. These firms hold a five percent market share and primarily provide project management and consulting services. Major competitors come from Germany, France and Italy. They typically have strong local market knowledge and the financial support of the European Union.

New firms seeking to enter the Hungarian environmental technology market place are advised to establish a local presence, preferably by teaming up with a local partner. After-sales service is an essential component of success in this market as is competitive pricing. Creative financial solutions, the support of the US Trade & Development Agency (TDA) and the US Export-Import Bank can lead to success.

7. TRAVEL/TOURISM SERVICES AND INVESTMENT OPPORTUNITIES (TRA)

Statistical figures are in USD millions. Exchange rate: USD1=282.27HUF

	1999	2000	2001
TOTAL SALES	3406	3429	3700
SALES BY LOCALLY-OWNED ESTABLISHMENTS	2214	2334	2500
FOREIGN SALES BY LOCAL ESTABLISHMENTS	0	0	0
SALES BY FOREIGN-OWNED ESTABLISHMENTS	1192	1095	1200
IMPORTS FROM THE U.S.A.	248	275	297

Some of the statistics were provided by the Central Statistical Office; others are unofficial estimates.

Tourism is a successful economic sector in Hungary with potential for further development. This is well illustrated by the fact that foreign exchange revenues in Hungary's tourism sector multiplied threefold between 1989 and 1999. Furthermore, experts estimate that ten percent of Hungary's GDP currently derives from tourism.

The Hungarian government has recognized the importance of providing incentives for the development of tourism and has guaranteed a priority role for the implementation of a modernization program in its most recent National Economic Plan. Objectives of the tourism development program include increasing the effectiveness of foreign tourism, strengthening domestic tourism, and improving the level of services. Establishment of conference centers and use of mineral water and hot springs for tourism purposes are of special priority. Opportunities for construction and development of these facilities will be offered through tender invitations announced by the government.

There is much to be done regarding the development of infrastructure and raising the level of standard services. Some areas of opportunity are:

A boom in hotel renovation and building is expected, followed by the building of convention centers around the country. This is expected to occur primarily in cities where tourism background and attractions already exist (e.g. Eger, Pecs, Sopron, Debrecen, and Szekesfehervar).

Building of a new city center has begun in Budapest that will include hotels, a large (5,000-person) convention center, a National Theater, Museum of Modern Arts, Concert Hall for the National Philharmonic, House of National Customs and office/retail space.

Travel services will continue to grow. Some American travel companies currently operating in Hungary are American Express, Delta Airlines, Continental Airlines, Tradesco Privilege Tours, American International Group, Alamo Rent-a-Car, and Worldspan.

A “Castle Program” to renew and utilize historical buildings in Hungary has been in effect for several years. One excellent example of the opportunity presented by this program is a castle hotel in the village of Paradsasvar – the first five star hotel in the Hungarian countryside.

There is an increasing demand for golf parks and holiday villages, especially around Lake Balaton and other spa tourism destinations.

Although the Hungarian Department of Tourism welcomes foreign visitors to Budapest, it is interested in encouraging them to venture outside of the city to areas such as the Danube Bend, the Great Plain, and historical cities like Szekesfehervar, Veszprem, and Pecs. Therefore, opportunities will likely be found in the improvement of the full range of tourism services and in making them available nationwide.

8. COSMETICS AND TOILETRIES (COS)

Figures in USD Millions. Exchange rate: USD1 = 282.27 HUF

	1998	1999	2000
TOTAL MARKET SIZE	309	312	315.3
TOTAL EXPORTS TO U.S.	1.3	1.4	1.1
TOTAL IMPORTS	186	187	188
IMPORTS FROM THE U.S.	13	12	10

The above statistics are unofficial estimates based on publicly available data.

Despite its high saturation level, the Hungarian cosmetics and toiletries market is expected to grow slowly but surely in the next few years. However, very strong competition is likely to push prices lower in certain product categories. Therefore, on the average, volume growth is likely to be considerably higher than value growth. The market value sales are more or less concentrated in the hands of multinational companies (the most prominent ones being Unilever, Procter & Gamble, Henkel, Lorebel and Beiersdorf). As the economy strengthens, a rise in the purchasing power forecasts a shift toward more sophisticated products. With two thirds of the women not using make-ups on a constant basis, color cosmetics are believed to be the fastest growing sector followed closely by skin care. Due to increasing product sophistication and brand consciousness, premium products are likely to play a major role in certain sectors weakening the present dominance of mass products in some areas. The process of market consolidation is slowly pushing illegal vendors (black-market) out of business.

Two characteristic features of the market are rising fashion consciousness and increasing health awareness, both of which leaves space for newcomers offering specialized products. Heavy advertising and sales promotion activities are the norm in the market and are expected to increase in intensity as brands try to establish loyalty among new buyers. Electronic media and ads in the increasingly popular women magazines will continue to play an increasingly dominant role in attracting customers. Product innovations and public relations efforts on the part of the manufacturer are also essential to acquiring market share. According to market insiders, products with natural substances are projected to have good sales potential in the near future due to their slowly rising popularity among Hungarians and to the high number of people with allergic reactions to certain chemicals.

Given the fact that the market is relatively new and not yet fully consolidated, prospective exporters are highly recommended to conduct comprehensive market research into the relevant sub-sector of the market (including major trends influencing future sales) before making any major preparations to enter the local market. The Commercial Section can help with this market research.

9. AGRICULTURAL MACHINERY (AGM)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL EXPORTS	110	109	110
TOTAL IMPORTS	97	84	90
IMPORTS FROM THE U.S.	9	6.3	7.5

The above statistics are unofficial estimates based on Hungarian Central Statistics Office data.

As Hungary moves closer to EU and Western standards of agricultural operations, the market for more productive and efficient agricultural machinery is increasing. While Hungary is still a comparatively small market, sales in the best years have reached 200 harvesters as more farmers sell off their five-year old equipment (purchased with state help) to buy new machinery and take advantage of the new state subsidies. The Hungarian government provides a 20-30 percent subsidy for the purchase of any agricultural machinery. The total amount of machinery purchase subsidies rose from HUF 13 billion (USD 43 million) in 2000 to HUF 16.5 billion (USD 55 million) in 2001. A further HUF 2 billion (USD 6 million) is available for the development of irrigation systems.

Although there is a very strong competition that keeps the prices down, imported agricultural machinery of US origin is well regarded and has had success in the market. The two largest importers of agricultural machinery are KITE and IKR. KITE is John Deere's exclusive Hungarian agent and has sold 1600 machines in the past five years, 800 of which were John Deere tractors in addition to 580 combined harvesters. KITE also sells irrigation equipment by US companies Nelson, IDC, Robert's Irrigation and Valmont. Its annual sales are HUF 1 billion (USD 3 million) represent about 30-35 percent of the market. Finally, KITE provides a full parts-supply service for John Deere and Valmont with annual revenues of HUF 3 billion (USD 10 million), covering 15-17 percent of the parts market.

IKR switched harvester supplier from the German Claas to the US-owned New Holland, member of the CNH group. In 2000 New Holland harvesters amounted for 21 percent of the market with IKR aiming for 30-35 percent this year.

The primary third country competition is German-owned Claas, now represented by Axial in the Hungarian market.

10. PHARMACEUTICALS AND MEDICINAL PRODUCTS (DRG)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL MARKET SIZE	900	950	1000
TOTAL LOCAL PRODUCTION	410	430	450
TOTAL EXPORTS	130	140	150
TOTAL IMPORTS	620	660	700
IMPORTS FROM THE U.S.	190	200	205

The above statistics are from public information, collected by the Association of Drug Manufacturers and Distributors.

The market for pharmaceutical and medicinal products is dominated by imports with 60-70 percent of the total market. American products account for approximately 25 percent of the sector's total imports. The estimated average growth rate of the Hungarian pharma-medicinal market for 2001-2003 is 4-5 percent annually.

Hungary spends 6-7 percent of its GDP on healthcare. Pharmaceutical costs are a significant part of healthcare expenditures accounting for 1.3-1.4 percent of the GDP (or 25-30 percent of the country's healthcare budget). Due to import liberalization, the number of import products has grown six-fold in the last decade. There are over 5,000 drugs registered in Hungary. Of these, approximately 3,000 are OTC medications with no social security subsidy. These non-prescription medicines account for 15 percent of total sales. The remaining 2,000+ drugs are prescription and are at least partially subsidized. Retail pharmacies registered over 80 percent of total sales. In-patient care institutions used the remaining 15-20 percent.

Foreign pharmaceutical companies need to have a local representative/agent who takes care of the registration process and coordinates distribution and marketing with local wholesalers. Participation in medical conferences/event is an important promotional tool.

Hungary has significant drug production capacity with major export markets. About one-third of the Hungarian drug production is being exported: active ingredients to Western countries, finished products to more than 80 countries (including Russia and Central-Eastern Europe). All former state-owned major pharmaceutical companies have been privatized during the last decade, most by foreign strategic investors.

Third country competitors include Swiss, German, British, Israeli and French firms (some with local manufacturing facilities).

11. FRANCHISING (FRA)

Statistical figures are in USD millions. Exchange rate: USD1=282.27 HUF

	1999	2000	2001
TOTAL SALES	730	750	788

SALES BY LOCALLY-OWNED ESTABLISHMENTS	365	375	394
FOREIGN SALES BY LOCAL ESTABLISHMENTS	0	0	0
SALES BY FOREIGN-OWNED ESTABLISHMENTS	365	375	394
IMPORTS FROM THE U.S.A.	185	188	200

The above statistics are unofficial estimates based on figures provided by the Central Statistical Office and Hungarian Franchise Association

Franchising is expected to play a key role in modernizing Hungary's service sector. The development of franchising, a relatively new concept in Hungary, could bring needed improvements in postal services, automotive products and services, property management, home maintenance, parking facilities, laundry services, passenger and cargo transportation, travel and tourism.

Fast-food establishments are the leading type of franchise in Hungary -- McDonald's, Burger King, Wendy's, Pizza Hut, Kentucky Fried Chicken and Manhattan Hot Dog are well-represented with more than 100 restaurants mainly in Budapest. According to the Hungarian Franchise Association (HFA), the fast food market is close to saturation but the HFA sees additional room for franchisers in the service sector.

The Hungarian Franchise Association estimates there are about 400 franchise systems present in Hungary, representing 3-4 percent of the retail sector (compared to 35-40 percent in the U.S.). Due to the strong economy, the share of franchise in retail may jump up to 10-12 percent in the next 4-5 years, the Association said.

One obstacle to the development of franchising in Hungary is the lack of personal capital or access to credit. Interest rates for business loans are still high and banks typically require collateral of up to 150 percent of the value of the loan. Although, the Hungarian Savings Bank has a special franchise loan package, its 15-25 percent interest rate is still comparatively high.

Because of high interest rates and limited access to capital, franchisers have to modify the typical American model to be successful in Hungary. For example, McDonald’s, the most successful franchiser in Hungary, uses multiple franchising techniques in Hungary depending on the partner.
Perhaps the best franchising models for the Hungarian market are home-based, lower capital franchises that focus on the well-educated, highly motivated Hungarians who already possess a natural inclination toward small-scale entrepreneurship but lack financing. Some examples of this type of franchise would include: car wash service, equipment/home maintenance, laundry and cleaning services, etc.

12. ELECTRONIC AND ELECTRICAL COMPONENTS OF ADP AND ELECTRIC MACHINERY (ELC)

Figures are in USD millions. Exchange rate: USD 1=HUF282 (2000)

	1999	2000	2001
TOTAL EXPORTS	3032	3962	4400
TOTAL IMPORTS	4142	6157	7500

IMPORTS FROM THE U.S.	164	317	425

Unofficial estimates based on Hungarian Central Statistics Office data.

Component parts to support Hungary's full-fledged electronics and electrical machinery production industries make up the largest commodity grouping of US exports to Hungary. Despite their already large value and volume levels, these groups have been showing steady growth. The sheer volume of materials makes the segment an attractive export opportunity for US producers, but a large proportion of these products are imported into Hungary by multinational manufacturing companies for use in production of products that will ultimately be exported to other markets. Therefore, direct sales to the Hungarian market while not insignificant represent only a small part of the overall market statistics.

In the electronic component segment, metal-oxide semiconductors and bipolar, monolithic and hybrid integrated circuits are used in the high-tech factories the Hungarian government is committed to attracting to Hungary. 'Smart cards' containing an embedded circuitry are also showing promise: their export value from the US tripled over the past three years. A third market segment, CRTs, has also shown significant growth for US exporters in the last three years, growing from nearly zero to over USD 1.4 million since 1997.

In the electrical component segment, capacitors, electrodes, arresters, lamps and plugs make up the largest volume of US exports to Hungary. Isolating switches, relays, capacitors and electrodes have shown the strongest growth over the last three years.

Major consumers of these components are GE Lighting, Flextronics Intl, and IBM Hungary. Competition in this sector is intensive and includes established trading relationships between the multinationals and their home country industry.

B. Best Prospects for Agricultural Products

1. SEED

		1,000 METRIC TONS
		200020012002
A	TOTAL MARKET SIZE	374315340
B	TOTAL LOCAL PRODUCTION	400350380
C	TOTAL EXPORTS	405053
D	TOTAL IMPORTS	141513
E	IMPORTS FROM THE U.S.	344

Planting seed: Hungary is a traditional agricultural exporter. In that vein it imports high quality planting seed for propagation and production. U.S. exports of vegetable, grass, forage and, in particular, field corn seed have been traditionally strong in this market. One limitation for new exporters is that the market is well established and trade linkages are solid. Exporters should be aware that market limitations exist due to Hungary's tariff rate quota system. Hungary has had legislation governing the use, registration and imports of genetically modified organism (GMO) materials. The first foreign GMO varieties had been approved for trials in spring, 1999 but these analyses primarily focus on environmental effects.

2. SOYBEAN MEAL

		1,000 METRIC TONS
		200020012002
A	TOTAL MARKET SIZE	685690700
B	TOTAL LOCAL PRODUCTION	151520
C	TOTAL EXPORTS	000
D	TOTAL IMPORTS	670675680
E	IMPORTS FROM THE U.S.	102030

Soybean meal: Hungary is a large producer and exporter of livestock and products. Annual consumption of soybean meal is about 700,000 metric tons. Hungarian importers have strong ties to South American soybean pellet exporters. However, the market is price sensitive; when American soybean meal is price competitive with South American pellets, Hungary will buy American.

3. BOVINE SEMEN

		USD MILLION
		200020012002
A		TOTAL MARKET SIZE8.007.607.50
B		TOTAL LOCAL PRODUCTION5.204.604.40
C		TOTAL EXPORTS0.500.500.50
D		TOTAL IMPORTS3.303.503.60
E		IMPORTS FROM THE U.S.0.901.301.40

Bovine semen: Hungary's dairy industry is based on U.S. breeds. Demand for high quality bovine semen for dairy cows is strong and U.S. exports in this area are significant. One limitation for new exporters is that the market is well established and trading linkages are solid. Exporters should be aware that market limitations exist due to Hungary's tariff rate quota system. Since July 1, 2000 duty-free imports from the EU has made U.S. export particularly difficult.

4. POULTRY BREEDING STOCK

		USD MILLION
		200020012002
A	TOTAL MARKET SIZE	70.0072.4073.00
B	TOTAL LOCAL PRODUCTION	70.0072.0072.50
C	TOTAL EXPORTS	9.008.708.50
D	TOTAL IMPORTS	9.009.109.00
E	IMPORTS FROM THE U.S.	1.802.002.20

Hungary is a producer and exporter of poultry breeding stock and poultry. U.S. exports of poultry breeding stock, particularly baby chicks for chicken broiler and layer production, are strong. One limitation for new exporters is that the market is well established and trade linkages are solid.

5. DRIED FRUITS & NUTS (INC. PEANUTS)

		USD MILLION
		200020012002
A	TOTAL MARKET SIZE	28.728.829.0
B	TOTAL LOCAL PRODUCTION	20.420.320.0
C	TOTAL EXPORTS	4.74.54.5
D	TOTAL IMPORTS	13.013.013.5
E	IMPORTS FROM THE U.S.	2.52.62.8

Hungary has well-developed sweets, confectionery and bakery industries. Household baking is also traditional. Consumption of dried fruits (including raisins) and nuts (including peanuts) is also increasing. Industry looks for better quality and higher value added raw materials. This means better competitive positions for the more expensive U.S. products. Suppliers from less expensive developing countries have well set market positions. Substantial parts of U.S. imports are re-export from Germany, Austria or other West European countries due to the need for small volumes but continuous deliveries.

6. BEEF

		1000 MT
		200020012002
A	TOTAL MARKET SIZE	39.338.640.0
B	TOTAL LOCAL PRODUCTION	45.043.044.0
C	TOTAL EXPORTS	9.99.08.5
D	TOTAL IMPORTS	4.24.64.5
E	IMPORTS FROM THE U.S.	3.02.01.6

Low cattle numbers and live beef cattle exports results in absolute and quality beef shortages, in spite of low domestic consumption. Meat processors need imported beef and edible offals, hotels want high quality beef. Import tariffs, in general, are high but preferential tariffs under quota are available and may facilitate the imports of U.S. beef. Exporters must be aware of the status of BSE related measures and requirements.

C. Significant Investment Opportunities

The National Development Plan (commonly referred to as the Szechenyi Plan) introduced by the Hungarian government in April 2000 outlines priority areas for investments by foreign investors, multinational companies and Hungarian institutions and private individuals. The key areas of investment opportunity are motorway construction, home building, tourism, and innovation enterprises.

Greenfield investments as well as equity investments in private companies continue to be good opportunities in Hungary. Although only 79 state-owned assets are still to be privatized, one can find opportunities in the energy, chemical, transport, agricultural, and real estate sectors. The current tenders and privatization offerings of the among the Hungarian State Privatization and Holding Co. (APV) are located on their website at http://www.apvrt.hu.

Chapter 6. Trade Regulations and Standards

A. Trade Policies and Barriers

A founding member of the World Trade Organization (WTO), Hungary's reputation for free and unencumbered trade policies has improved significantly over the past years.

Import Quotas: In compliance with WTO rules, on January 1, 2001 Hungary eliminated all quotas for products originating from WTO-member countries, including cars, clothing, and household cleaning products.

Import Tariffs: Exports from the United States are subject to the most-favored-nation (MFN) duty rate. These rates range from zero to more than 100 percent depending on product. In contrast, tariffs for industrial products imported from the EU and CEFTA countries were totally eliminated on January 1, 2001. (Hungary's trade agreement with the EU came into effect in February 1994 and with CEFTA in July 1994.) However, even these free trade agreements do not aim at complete exemption from duties on agrarian trade.

U.S. companies are often faced with a much higher import duty than firms located in the European Union. This tariff differential may range from 5 percent (e.g., vending machines) to 78 percent (e.g., selected used cars) depending on product. This seriously affects the cost competitiveness of certain U.S. products. The U.S. Embassy, the U.S. Department of Commerce and the Office of the U.S. Trade Representative are currently preparing for additional discussions with the Government of Hungary in order to lower the import duties on U.S. products.

One of the most important developments influencing trade between the EU and Hungary has been the Pan-European Cumulation System (PECS), comprising a set of EU bilateral agreements, which aims to harmonize standards and rules-of-origin laws between the EU, EFTA, CEFTA, and other countries on the periphery such as the Baltic States (a total of 29 countries). The Government of Hungary joined the PECS on December 28, 1996, with an effective date of July 1, 1997. Under the PECS, companies that import inputs from outside the cumulation area must pay duty in order to take advantage of free-trade preferences when exporting their finished goods to PECS countries. If, on the other hand, the importer opts to receive a duty drawback (credit for duty paid when the input is imported), eligibility for preferences is lost and the finished product must be exported on the standard MFN basis. A partial duty drawback remains in effect through 2001, according to which credit can be provided for duties paid over 5 percent in the case of industrial products, and over 10 percent in the case of textiles. The partial duty drawback system will be phased out on January 1, 2002, according to VPOP, the National Customs Office.

Hungary's trade agreements with the EU, EFTA, and CEFTA member states set the rate of local content required for industrial products to qualify for preferential treatment in re-exporting to EU countries. The exact percentage varies according to the product in question, with 50-60 percent a very broad rule of thumb.

Non-tariff barriers in Hungary may at times include a relative lack of transparency with respect to the creation and application of laws and regulations. Furthermore, the absence of a prior notice or review period often leaves companies with little opportunity to influence the outcome or plan ahead. Several government procurements have resulted in unsuccessful tenders, been challenged in court for technical violations, or prompted complaints that they were politicized.

B. Customs Valuation

Customs Valuation is on an ad valorem basis. Customs debt comprises the customs duty assessed, the general turnover tax (VAT) - usually 25 percent of value, eventual consumption and excise tax, and any miscellaneous fees such as road fund contributions and/or green taxes, if applicable. The customs debt is due and payable within 5 business days following notification thereof. A permit for deferred payment of customs duty may be granted by the central customs agency for applicants that are considered to be reliable for customs purposes. Deferred payment allows settlement of the customs debt within 15 business days after the due date.

As a consequence of the modification of the Customs Law, effective July 1, 2000, companies may apply for a license to carry out simplified customs procedures. License holders have the option to make a customs declaration with an incomplete or a substitute document (even electronically), or have customs clearing on the spot if the license holder starts customs processing without the involvement of a customs officer. The supplementary declaration must be submitted to the accounting customs office within 10 days. This procedure provides practically another 10 days of deferred payment of the customs debt.

Also, importers may inquire to the Hungarian customs authorities in advance for customs tariff classification of the products they intend to bring to Hungary. Since January 1, 2001 the National Headquarters of Hungarian Customs and Financial Authority (VPOP) accepts written inquiries to the following address:

Vam - es Penzugy orseg Vegyvizsgalo Intezete
Mr. Jozsef Palla, Director
H-1163 Budapest, 16th District,
Hosok fasora 20-22. (Galgaheviz u. 19.)
Phone: (36-1) 403-0414.
Email: palla.jozsef@mail.upop.hu

The Hungarian Customs Tariffs Book is also electronically available in English at http://www.vamszoft.hu. A hard copy (in Hungarian only) can be ordered for HUF 5000 (about USD 18) from West End Co. Ltd. At the following fax numbers: (36 1) 349-5795 or 239-7708.

C. Import Licenses

An estimated 95 percent of products no longer require an import license; however licenses are still required for some goods imported from non-WTO countries, including textiles, clothing and shoes. Furthermore products which are typically controlled in the United States and other western countries such as arms/ammunition, military equipment, hazardous materials, materials for biological weapons, psychotropic products and drug precursors, special paper types used for banknotes and securities, nuclear products and uranium ore are similarly controlled in Hungary. A list of products that require import licenses can be found on the Ministry of Economic Affairs homepage, in Hungarian only, at http://www.gm.hu/ekh/exlist.htm.

D. Export Controls

Most high-tech western technology can flow to Hungary without export licenses. However, some equipment still requires export licenses. Depending on the product, export licenses may be issued from U.S. Department of Commerce's Bureau of Export Administration, the Department of State or the Department of Defense. As licensing can be a lengthy process, U.S. firms should ensure that they do not make delivery commitments until the export license has been approved.

E. Import/Export Documentation Requirements

All importers and exporters must file a Unified Customs Declaration, which can be obtained from Hungarian Customs. Essentially, this document serves as a declaration for the type and number of goods being imported or exported. This document must contain the Harmonized Tariff Number, which identifies the classification of the goods.

For consumer distribution, the importer must have a certification document from the Commercial Quality Control Institute (KERMI, www.kermi.hu) and/or in the case of electronic/technical goods from the Hungarian Electro-technical Control Institute (MEEI, www.meei.hu/en). Goods cannot be custom-cleared without the KERMI and/or MEEI permits. Other products destined for industrial production, such as raw materials, will need a waiver of certification. With reference to certain consumer products, KERMI may require permit documentation from other testing and certification agencies such as the National Institute for Drugs and the Quality Control Office of the Building Industry.

F. Temporary Entry

Customs goods intended for temporary use, presentation (international fair, exhibition or other similar international event; concert, sports event, tender) or testing under the obligation to return are customs cleared in temporary importation. The deadline of return is 24 months unless an international agreement states otherwise. The deadline of return (if not maximized) can be extended on request. Temporary importation is subject to license; customs debt is imposed but not payable. Customs goods cleared through customs in temporary importation may be sold in Hungary or transferred to the use of a third party or rented or given on a lease only after the payment of the customs debt. If customs clearance is effected on the basis of a lease contract or a lending for use contract, two percent of the customs debt imposed for each commenced month of temporary importation and reduced by the amount of VAT and excise tax shall be paid on return of the goods within the deadline of return; however after 50 months, total customs debt has to be paid.

G. Labeling, Marking Requirements

Strict rules apply to labeling and marking of food, cosmetic and household products. The rules apply to both domestic and imported products. The two primary testing bodies are the National Institute of Food Hygiene and Nutrition (OETI) and/or the Commercial Quality Testing Institute (KERMI).

National Institute of Food Hygiene and Nutrition (OETI)
Dr Imre Rodler, Director
H1476 Budapest, POB 52 (Mailing address)
H-1097 Budapest
Gyali ut 3/A
Tel: (36 1) 215-4130
Fax: (36 1) 215-1545
Email: h8649rod@ella.hu

Commercial Quality Testing Institute (KERMI)
Mr. Janos Peterfi, Managing Director
Ms. Attilne Papolczi, International Relations
1088 Budapest
Jozsef krt. 6
Tel/Fax: (36 1) 210-9570 or 210-9439
Web Address: www.kermi.hu

H. Prohibited Imports

According to section 186/a 1994 of the Hungarian Gazette, Hungary does not prohibit the importation of any product. However, special permits are required for the importation of such items as endangered species, plants, environmentally hazardous products, and certain drugs.

I.   Standards

The Protocol to the Europe Agreements on Conformity Assessment and Acceptance of Products (PECA) signed by Hungary and the European Union entered into force on July 1, 2001. On the basis of this mutual recognition agreement each market accepts testing by each other's testing/notified bodies. The agreement affects products of seven industrial areas (machinery, electrical safety, electromagnetic compatibility, gas appliances, medicinal products for human use (GLP, GMP), hot water boilers, and medical devices). The U.S. - E.U. mutual recognition agreement does not extend to Hungary. Therefore, manufacturers from the United States must have their CE-marked product tested and certified by the relevant institute in Hungary prior to initial entry into Hungary, even if they have a CE-mark from a European testing body.

The "Notified Bodies" in Hungary are:

For electrical appliances:
Magyar Elektrotechnikai Ellenorzo Intezet (MEEI)
Hungarian Institute for Testing & Certification of Electrical Equipment
Mr. Lajos Lazur, Director
Mr. Andras Vincze, Head of Certification Department
Vaci ut 48/a-b.
1132 Budapest

Tel: (36-1) 350-2312/18 Fax: (36 1) 329-0684
E-mail: certif@meei.hu
Web Address: www.meei.hu

For machinery:
TUV Rheinland Hungary
Mr. Gergely Hidas, Director
Paulay Ede u. 52
1061 Budapest
Tel: (36-1) 461-1100 Fax: (36-1) 461-1199
E-mail: tuvhung@mail.datanet.hu
Web address: www.tuv.com

For medical devices:
National Institute for Medical Engineering (ORKI)
Mr. Csaba Nagy, Director General
Diosarok utca 3
1125 Budapest, Hungary
Tel: (36 1) 356 1522   Fax: (36 1) 375 7253
Web Address: www.orki.hu

For gas appliances and hot water boilers
Technical Safety Testing and Certifying Institute (MBVTI)
Logodi u. 38-40.
H-1012 Budapest
Dr. Karoly Zentai, Managing Director
Mr. Viktor Janki, Head of Certification Dept.
Tel: (36-1) 212 3032 Fax: (36-1) 375 4130
E-mail: mbvti@mail.matav.hu

For medicinal products for human use (GMP, GLP):
National Institute of Pharmacy (OGYI)
Dr Tamas Paal, Director General
Zrinyi utca 3
1051 Budapest, Hungary
Tel: (36 1) 317 1462 and 317 1488   Fax: (36 1) 318 1167
E-mail; ogyi@ogyi.hu
Web Address: www.ogyi.hu

There are currently two types of standards: national and sectoral. National standards are issued by the Hungarian Standard Office and conform to international norms. Hungary is a signatory to the GATT Agreement on Technical Barriers to Trade (Standards Code) and its successor, the WTO. Hungary is also a participant in the International Standardization Organization (ISO) and the International Electro-technical Commission (IEC). Individual ministries and other central government agencies issue sectoral standards.

J. Free Trade Zones/Warehouses

In Hungary there are no specific areas delineated as duty-free zones. The land area of any enterprise or that of plants already existing or under construction can be declared a duty-free zone by customs authorities. Such zones are especially attractive to companies contemplating exporting significant quantities of finished or semi-finished products where all or most of the raw materials must be imported. However, Hungary's duty-free zone policy will be reviewed and subject to change as they prepare for accession to the EU.

One of the largest free-trade zone concentrations is located at Szekesfehervar, where Visteon, Philips Electronics, IBM, Loranger, and Alcoa are located.

K. Membership in Free Trade Arrangements

European Union (EU)
Hungary has concluded a number of preferential trade agreements, including the Europe Agreement between Hungary and the European Community and their Member States (December 1991). In June 1993, the EU agreed to accelerate the agreement's provisions and reaffirmed its commitment to Hungary's full membership. The free trade provisions entered into force in January 1994. Although there is no real opposition, either internally or externally, for Hungary's membership in the EU, timing is uncertain. Membership is not expected before 2004.

Central European Free Trade Agreement (CEFTA)
Hungary is a party to CEFTA, along with Poland, Czech Republic, Slovakia, Slovenia, Bulgaria and Romania. About 90 percent of all industrial products are currently traded free of duty between members under the Agreement. Hungary's trade with CEFTA countries accounts for approximately 10 percent of the country's total trade.

European Free Trade Association (EFTA)
In July 1993 Hungary concluded a free trade agreement with the European Free Trade Association countries (Switzerland, Liechtenstein, Iceland and Norway). This agreement was modeled after the EU accords and eliminated trade barriers for Hungarian goods that entered the EFTA countries by 1997 and eliminated barriers for EFTA imports of industrial products at the end of 2000.

Pan-European Cumulation System (PECS)
In July 1997, Hungary acceded to the Pan-European Cumulation System. Comprised of 29 countries, mostly EU-, CEFTA- and EFTA-member countries plus the Baltic states, the system imposes certificate-of-origin rules on member countries governing qualification for preferential trading status. (See section VI. A above). The current partial duty drawback will be phased out by the end of 2001.

Chapter 7. Investment Climate

A1. Openness to Foreign Investment

Hungary attracted over USD 23.5 billion in foreign direct investment (FDI) from 1989 through 2000. Hungary received almost one-third of all FDI invested in Central and Eastern Europe during this period. In 2000, USD 1.65 billion in FDI flowed into the country, a pace that is expected to continue in the medium term. The U.S. continues to be Hungary's largest overall investor, with more than USD 6.8 billion invested, and a number of U.S. companies have expanded operations in Hungary through reinvestment. The current environment in Hungary encourages foreign investment and participation in virtually all aspects of the private economy. As a result, by the end of 2000, over 26,000 foreign companies have established operations in Hungary.

FDI in Hungary was jump-started by the extensive cash privatization of state assets to foreign strategic investors. From 1990 through 2000, revenues from privatization totaled USD 12.8 billion, more than a quarter of total GDP in the same period. The most recent Privatization Act (June 1995*)* and a later amendment (February 1997*)* accelerated privatization while making it more transparent. The Hungarian Privatization and State Holding Company (APV) manages and sells state-owned properties, with Ministry of Finance approval on issues concerning the banking sector. State ownership consists of three components: (1) small minority share holdings that will eventually be sold; (2) "golden shares" in certain strategic companies (these give the GOH an advisory role and veto power on major management decisions, but no influence on day-to-day operations); and (3) majority ownership in firms for which privatization decisions are yet to be made. Sixty percent of these are small firms in specialized sectors, such as regional bus companies, and will likely be sold within the next ten years.

FDI is concentrated in western Hungary and in Budapest, due to more developed infrastructure and proximity to the European Union border. However, eastern Hungary offers a well-trained workforce and a long tradition of industry, agriculture, and research. There are also special incentives for doing business in eastern Hungary (see A.5. below).

Foreign investment in Hungary typically takes one of four forms: establishing a new (greenfield) business; entering into a joint venture; obtaining equity in a state enterprise through privatization; making a portfolio investment or participating in a capital increase.

Local subsidiaries are typically incorporated as a limited liability company (known by its Hungarian abbreviation Kft.). Other commonly used forms are joint stock companies (abbr. Rt.), joint ventures, business associations, general and limited partnerships, and sole proprietorships. Many foreign companies operate through representative offices, and establishing branches has become easier under the revised Branching Act, effective January 1998.

Amended Act 1988/24 on Investments of Foreigners in Hungary (the "Investment Act") governs the establishment and operations of companies with foreign participation, and grants significant rights and benefits to foreign investors. It guarantees national treatment for foreign investments and abolishes the general requirement of GOH approval. It also provides protection against losses resulting from nationalization, expropriation, or similar measures, and guarantees free repatriation of invested capital and dividends.

Foreign ownership up to 100 percent is permitted with the exception of designated "strategic" holdings, some defense-related industries, and the national airline Malev (international agreements require a minimum of 50 percent national ownership in order to qualify as a national carrier). Since July 1996, government approval is not needed for foreigners to invest in financial institutions and insurance (only official notification). As of January 1, 1998, foreign financial institutions may operate branches and conduct cross-border financial services, in keeping with Hungary's commitments at the time of its OECD accession in May 1996.

Foreign-owned companies that are Hungarian legal entities may acquire real estate, with the exception of agricultural land. Under the Investment Act, a company incorporated in Hungary may only acquire real estate "required for its economic activities," however this has not prevented U.S. and other foreign entrepreneurs from engaging in property development. The 1994 Land Law restricts the purchase of land by foreigners to 6,000 square meters, but allows for leases of up to 300 hectares for a maximum of 10 years.

Currently, only private Hungarian citizens can purchase farmland, while other legal entities such as companies and cooperatives, as well as foreign citizens, can only lease such land. In accession negotiations with the EU over the purchase of farmland in Hungary, Hungary was allowed a seven-year waiting period, following accession, for the purchase of arable land by foreigners. An exception to this has been offered by which a foreigner with Hungarian residency and who has worked land as a primary means of support would be eligible to buy that land after three years.

A2. Conversion and Transfer Policies

The Hungarian forint (HUF) became convertible for essentially all business transactions within Hungary on January 1, 1996. Hungary complies with IMF Article VIII and all OECD convertibility requirements. In 2000, the official average exchange rate for the HUF to the USD was 282.27. The Central Bank manages a crawling peg foreign exchange regime, linked to the Euro. In May 2001, the Central Bank sharply widened the band around the peg from +/-2.25 percent to +/- 15 percent. Within the band, the forint effectively floats and has appreciated by 10 percent in little over two months. Shortly thereafter, the Central Bank lifted all remaining capital controls, providing the necessary instruments for investors to hedge currency risk.

The Investment Act guarantees foreigners the right to repatriate any dividends, after-tax profits, royalties, fees, or other income deriving from the operation or sale of the investment. The Act also grants the foreign employees of a foreign investment the right to transfer all of their after-tax salaries. There are no onerous foreign exchange requirements, and there are no reported instances of delay in repatriations.

The GOH has eliminated all restrictions on capital account transactions.

Foreign investors may keep export receipts and other cash contributions in convertible currencies in a foreign exchange account. A company may use these funds to import, duty-free in some circumstances, goods considered as part of the investment. Alternatively, it may import goods using foreign exchange bought in HUF.

In 2000 the Hungarian National Bank reported that Hungarian FDI abroad increased to USD 621 million.

A3. Expropriation and Compensation

There have been no substantial expropriations of foreign-owned assets since the Communist takeover in 1945, but claims from that period have arisen since 1989. Following the change of regime in 1990, the GOH began a compensation program for persons who lost property under the Fascist and Communist regimes. These

Hungarians and foreign citizens were eligible to receive compensation coupons that could be sold or exchanged for privatized shares in private companies, real estate or annuities.

In April 1997, Parliament passed a Jewish Compensation Act that returns property stolen from Jewish victims of Nazism and Communism. Under this law, some property, as well as monetary compensation, was turned over to the Jewish Public Heritage Foundation and Jewish victims of the Holocaust.

A4. Dispute Settlement

Hungary has accepted binding international arbitration in cases where the resolution of disputes between foreign investors and the state is unsuccessful. Hungary is a member of the International Center for the Settlement of Investment Disputes (ICSID), also known as the Washington Convention. It is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

A5. Performance Requirements/Incentives

Because of EU anti-discrimination rules that Hungary has adopted, there are no "foreign investment" incentives per se. All incentives are available to any investor, regardless of nationality, who meets the stated criteria. Incentives are generally not available to foreign firms registered abroad, however all enterprises registered in Hungary are eligible for support regardless of ownership. This includes 100 percent foreign-owned subsidiaries registered in Hungary. The range of tax incentives provided for investors is being harmonized with EU legislation, and the development of a new system of incentives has already begun.

There are no GOH-imposed conditions for establishing, maintaining, or expanding an investment. Hungary's Corporate Tax Act provides for a ten-year, 100 percent corporate tax allowance for all large investments (more than HUF 10 billion (USD 35.4 million), or HUF 3 billion (USD 10.6 million) in designated underdeveloped areas. This incentive, available from the second tax year after the facility opens for production, exempts the company from Hungary's 18 percent corporate tax. After the first year, the incentive is contingent upon the employment of 500 workers more than the average number employed by the company in Hungary prior to the investment (100 persons in underdeveloped zones.) This and other tax benefits for new investments will terminate after the 2011 tax year or on the date of Hungary's accession to the EU, whichever is sooner, and will only be granted to new investments until the end of 2002.

Tax allowances exist for small and medium-sized enterprises (SMEs). Forty percent of the interest on a loan granted by a financial institution to purchase or manufacture capital goods is allowable, but cannot exceed HUF 5 million (USD 17,700) per year.

Regional tax allowances exist for investments in underdeveloped "priority" regions (unemployment exceeds 15 percent) or in enterprise zones, defined by the GOH. These give full allowance of the corporate tax calculated on the basis of net revenues. In enterprise zones, companies are entitled to this allowance for up to five tax years, as long as net annual sales increases exceed one percent per year. In a priority region, net sales must increase by five percent of the investment value for each year, up to five years total.

Companies located in an underdeveloped area of Hungary receive a 100 percent corporate tax allowance for 10 years, based upon the proportional value of net sales at production facilities established with an investment of at least HUF 3 billion (USD 10.6 million). This incentive is available only from the second year after the facility's opening up for production and afterwards only for years in which at least 100 more persons are employed than in the year preceding the initial investment. This allowance will be in effect up to and including the 2011 tax year.

A tax allowance of six percent of the investment value is available for companies, located in a priority region or an enterprise zone, on the value of machinery and buildings installed. A tax allowance of six percent of the value of the investment is available for companies undertaking an infrastructural project in a priority region or enterprise zone. These allowances are available up to and including the 2002 tax year.

A corporate tax allowance is also available for R&D. One hundred percent of the direct costs incurred in connection with research and development activities (wages, materials, semi-finished products, license fees, patents, know-how, consulting fees, etc.) are deductible from the tax base.

Investment-related subsidies are available through the GOH's Szechenyi Plan, a nationwide development program aimed at promoting foreign direct investment and at improving the environment for such investments. Fifty-five sub-programs have been identified as areas where non-repayable GOH grants will make up20 to 25 percent of the projected investment costs in the areas of enterprise development; research, development and innovation; information society and economic development; tourism; regional economic development; support of active employment aims; motorway development; and housing.

The Hungarian Investment and Trade Development Agency (ITDH) can provide information and other support for foreign investors. The Ministry of Economic Affairs and the Ministry of Foreign Affairs oversee the ITDH.

A6. Right to Private Ownership and Establishment

The Hungarian constitution guarantees the right to private ownership and provides other related guarantees. Foreign and domestic private entities may establish and own business enterprises and engage in all forms of remunerative activity, except those prohibited by law. Hungarian law guarantees the right of private entities to freely establish, acquire, and dispose of interests in business enterprises.

Private enterprises enjoy competitive equality in markets, business licenses, supplies, and credit access. About 80 percent of Hungary's GDP is produced by the private sector, a remarkable turnaround from 1990 when the private sector accounted for less than 25 percent of economic output.

Registering a company in Hungary has become easier since the Companies Act came into force in June 1998. It compels registry courts to process applications to register limited liability (Kft.) and joint-stock (Rt.) companies within 30 days (60 days for unincorporated business entities.) After this period, if the registry court does not act, the new company is automatically registered. The Act eliminates the need for separate registrations at the tax and social security authorities; a single registration will suffice. The Act also increased the minimum capital requirements for limited-liability companies from HUF 1 million to HUF 3 million and joint-stock companies from HUF 10 million to HUF 20 million, effective June 2000.

The Act on Bankruptcy Procedures, Liquidation Procedures and Final Settlement, as amended in 1993, covers all commercial entities except banks (which have their own regulatory statutes), trusts, and state-owned enterprises. Bankruptcy proceedings can be initiated only by the debtor, provided he has not sought bankruptcy protection within the previous three years. Within 90 days of seeking bankruptcy protection, the debtor must call a settlement conference to which all creditors are invited. Majority consent of the creditors present is required for all settlement plans. If agreement is not reached, the court can order liquidation. The Bankruptcy Act establishes the following priorities of claims: 1) liquidation costs; 2) secured debts; 3) claims of individuals; 4) social security and tax obligations; 5) all other debts. Creditors may request the court to appoint a trustee to perform an independent financial examination. The trustee has the right to challenge, based on conflict of interest, any contract concluded within 12 months preceding the bankruptcy.

A7. Protection of Property Rights

The Hungarian constitution and legal system provide strong protection for owners of real property. Although the protection of intellectual property has been strengthened, it needs further improvement. The United States and Hungary signed a Comprehensive Bilateral Intellectual Property Rights (IPR) Agreement in 1993 that addresses copyright, trademarks and patent protection. A new Copyright Law passed in June 1999 made necessary technical changes designed to bring Hungarian law into compliance with the WTO's TRIPS agreement. The U.S. government tracks enforcement by the GOH on a regular basis to ensure compliance with its international trade commitments. The U.S. has urged Hungary to address a number of shortcomings in the protection of IPR and in May 2001, Hungary was upgraded from the "Watch List" to the "Priority Watch List" under the Special 301 provisions of the Trade Act of 1974. The USTR report cited Hungary's failure to provide adequate protection for confidential test data submitted to GOH regulatory authorities by pharmaceutical companies seeking marketing approval. Hungary was also cited for making only modest progress in reducing its substantial levels of IPR piracy.

The industrial property and copyright legislation in effect since July 1, 1994:
-- extends product patent protection for products (previously, Hungary issued only process patents);
-- defines who controls the rights to intellectual works;
-- extends and unifies the terms of protection;
-- provides the legal means to prevent proprietary information from being disclosed or acquired without the consent of the trade secret owner by other than "honest commercial practices;" and
-- ensures that enforcement procedures are available under civil, criminal or administrative law to permit effective action against IPR infringement.

The 1993 IPR agreement recognizes an exclusive right to authorize the public communication of works, including the performance, projection, exhibition, broadcast, transmission, retransmission or display of these works. It also requires that protected rights be freely and separately exploitable and conferrable (contract rights), and recognizes an exclusive right to authorize the first public distribution, including importation, for protected works.

Patent protection in Hungary covers the use, sale, offering for sale, and import of a patented product or products made using a patented process. The definition of infringement has been extended to include "supplying the means." A person who sells or offers to sell the means of producing a patented product is liable if that person is proven to have known that the means could be used for infringement. An example is the sale of decoder boxes that would allow the user to pirate a cable signal.

The application process for a patent can take from six months to one year. Under the revised Patent Act, effective January 1, 1996, patentable inventions are those which are novel and capable of industrial application. The term of the patent is 20 years from the filing date. A six-month grace period was adopted and the disclosure of an invention in breach of confidence is disregarded when considering the novelty of an invention. The Patent Act also includes the principle of exhaustion of rights, a provision concerning compulsory licensing of patents, and a number of procedural modifications. The law conforms to the guidelines of the European Patent Convention, to which Hungary is a signatory. Hungarian law also protects the topography (layout design) of semiconductor chips.

A8. Transparency of the Regulatory System

Most Hungarian business regulations, including competition laws, conform to EU regulations. However, a lack of regulatory and legal transparency is a common complaint of U.S. companies doing business in Hungary. Many groups, including the Commercial Service of the U.S. Embassy and Hungary's AmCham, advocate on behalf of foreign investors in favor of increased GOH transparency.

Some employers complain that social security and unemployment contributions are too high and that tax compliance is costly. The GOH has reduced employer social security contributions by 5 percent since 1999, and intends to reduce it again in 2002. Employers now pay social security and other employment taxes equal to more than a third of the employee's salary. Hungary has high individual income tax levels. Its highest tax bracket is 40 percent and this applies to all income above HUF 1.05 million (USD 3720, slightly higher than the average Hungarian salary). Corporate tax is low at 18 percent. Hungary and the United States have a double taxation treaty that reduces some income and corporate tax obligations for U.S. taxpayers.

Foreign companies operating in price-regulated sectors, such as energy and pharmaceuticals, have complained about profit losses due to GOH delays in adjusting prices upward to reflect world market prices, inflation, and the devaluation of the forint. MOL, the privatized energy company, states it is losing money on its natural gas division, but the GOH has allowed only limited price increases to the largest consumers. MOL is considering selling its gas division, possibly back to the GOH. Multinational pharmaceutical firms spent the last half of 2000 in price and reimbursement negotiations with the Ministry of Health before reaching agreement on the medicines that they supply through the national health system. On July 1, 2001, drug prices were increased by an average of 6.3 percent, with smaller increases planned for 2002 and 2003. Pharmaceutical companies claim that GOH regulation in this area will restrict their ability to provide innovative medicines to Hungary and limit the amount of R&D they would otherwise conduct in Hungary.

A9. Efficient Capital Markets and Portfolio Investment

Hungary's banking system has gone through a remarkable transformation in recent years from money-losing state-owned monoliths to private institutions plus the strong presence of foreign financial enterprises. At the end of 2000, two-thirds of the Hungarian banking sector was foreign-owned.

Hungary implemented a major bank reform in 1987, creating a two-tiered system by separating commercial banking from the National Bank of Hungary (MNB). From the early 1990s to 1995, the GOH gave over USD 4 billion in subsidies to state-owned banks to cover bad loans and prepare them for privatization. Hungarian bank privatization began in 1994, when the GOH forced the merger or liquidation of small loss-making banks and began to sell off the larger banks. Postabank's troubled portfolio required a GOH takeover and bailout in 1998. Bank profits have improved in 2000 and the number of loss-making banks was cut in half.

The ten largest banks in Hungary in 2000, by total assets, were:

1. OTP Bank	USD 6.44 billion
2. MKB Hungarian Foreign Commercial Bank	USD 2.63 billion
3. CIB Bank	USD 2.27 billion
4. K&H Commercial and Credit Bank	USD 2.07 billion
5. ABN AMRO Bank	USD 1.56 billion
6. Raffeisen Bank	USD 1.17 billion
7. Postabank	USD 1.10 billion
8. AEB Bank	USD 1.10 billion
9. Budapest Bank (G.E. Capital)	USD 1.06 billion
10.Bank Austria Creditanstalt	USD 1.06 billion
Total:	USD 20.46 billion

(Note: The K&H and ABN AMRO banks merged in early 2001, creating what is now the second largest bank in Hungary.)

Capital is readily available for businesses, due in part to greater foreign presence and greater competition. Foreign investors have equal access to credit on the local market, with two exceptions: (1) special governmental credit concessions, such as small business loans, and (2) loans by international financial institutions available only to Hungarian businesses.

Hungary has made great strides in modernizing its financial sector. The 1996 State Money and Capital Market Supervision Act merged the State Securities and Stock Exchange Commission with the State Banking Supervision to form the Bank Supervisory Board. This new board exercises control of the operation of general and specialized credit institutions, financial enterprises, securities companies, investment funds and the stock and commodity exchanges. In April 2000, the responsibilities of the Bank Supervisory Board were merged with the state insurance and pension supervisory agencies to form the Hungarian Financial Supervisory Authority.

The 1996 Credit Institutions and Financial Businesses Act secured the safe operation of the financial sector, harmonized Hungarian banking laws with EU standards, and introduced universal banking.

Foreigners do not need GOH approval to establish bank subsidiaries or to establish more than a 10 percent stake in existing banks. Foreign or Hungarian credit institutions, insurance institutions, and investment companies may own up to 100 percent of a financial institution in Hungary. However, the upper limit for a single owner (foreign or Hungarian) not falling into one of the above categories is 15 percent, stricter than EU norms. Since January 1998, foreign banks can establish branches in Hungary offering cross-border financial services.

Foreign-owned subsidiaries often have a competitive edge over Hungarian banks in customer service, although Hungarian banks have recently been able to develop and to promote retail instruments to service their clients. Hungary's retail sector is still largely a cash-based economy and checks are not generally used, although ATM machines have become widespread (it is estimated that there are nearly four million bankcards in use nationwide). Credit card use is becoming more common, particularly in Budapest, and there are over 1.55 million Visa cards in Hungary. Many institutions already conduct network banking through the Giro credit transfer system.

The Budapest Stock Exchange (BSE), the first of the former socialist Central and Eastern European exchanges to reopen, was formally reestablished in 1990. The 1996 Offering of Securities, Investment Services and the Securities Exchange Act and the 1990 Securities and the Stock Exchange Act govern the public issuance and trading of bonds, shares and other securities. The BSE has 38 members, which are licensed-broker or broker-dealer companies, including several U.S.-based firms. As of June 30, 2000, the total BSE market capitalization was USD 220.7 billion. However, investor interests in the BSE is weakening. The performance of the major Hungarian companies on the BSE has been lackluster and with the recent lifting of remaining capital controls most BSE operations can be conducted from other markets.

Net portfolio investment in Hungary declined by USD 374 million in 2000, according to the National Bank. Foreign investors can buy any forint-denominated GOH bonds of any maturity and foreign investment funds can establish offices in Hungary in order to attract additional Hungarian investors.

A10. Political Violence

Violence is not part of the traditional political landscape in Hungary. The transition from communism to democracy was negotiated and peaceful, and three peaceful changes of government via the ballot box have followed. There is little cause to expect insurrections, political terrorism, or interstate war. The Kosovo conflict, which began only days after Hungary's accession to NATO, did not result in any conflict within Hungarian territory, despite its front-line status. There has been no violence directed against foreign-owned companies.

A11. Corruption

Corruption is not pervasive or institutional within the GOH, although some foreign companies have complained about incidents of corruption or illicit influence in government administration. Taking bribes is a criminal offense, and media scrutiny is high. Hungary signed the OECD Anti-Bribery Convention in December 1997, and incorporated its provisions into the penal code effective May 1, 1999. The Ministry of Justice has agreed to incorporate further OECD recommendations into the penal code in 2000.

The Hungarian Parliament passed conflict of interest legislation in early 1997 that prohibits members of Parliament from serving as executives of state-owned companies.

B. Bilateral Investment Agreements

Hungary and the United States do not have a Bilateral Investment Treaty (BIT), nor are the two countries currently in negotiations for a BIT. However, Hungary does have a bilateral investment agreement with the United States. As members of the OECD and WTO, both countries have been active participants in the negotiations on a multilateral investment agreement.

Hungary has bilateral investment agreements with the following countries: Albania, Argentina, Australia, Austria, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Great Britain, Greece, Holland, Indonesia, Israel, Kazakhstan, Kuwait, Luxembourg, Malaysia, Moldova, Norway, Paraguay, Poland, Portugal, Romania, Russia, Singapore, Slovakia, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, the United States, Uruguay and Vietnam.

Hungary has tax agreements with the United States and with the following countries: Albania, Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Finland, the Former Yugoslavia, France, Germany, Great Britain, Greece, Holland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Kuwait, Luxembourg, Malaysia, Malta, Moldova, Mongolia, Norway, Italy, Pakistan, Poland, Romania, Russia, Singapore, Slovakia, South Korea, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, Tunisia, Ukraine, Uruguay and Vietnam.

C. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) has been operational in Hungary since October 1989. OPIC offers U.S. investors insurance against political risk, expropriation of assets, damages due to political violence, and currency inconvertibility. It can also provide specialized insurance coverage for certain contracting, exporting, licensing, and leasing transactions undertaken by U.S. investors in Hungary.

Political risk insurance is available for foreign-owned companies in Hungary from several private carriers in the United States and Western Europe, and also from the Multilateral Investment Guarantee Agency (MIGA), a World Bank affiliate.

D. Labor

Hungary's civilian labor force of 4.1 million persons is highly educated and skilled. The literacy rate in Hungary exceeds 98 percent and about two-thirds of the work force has completed some form of secondary, technical, or vocational education. Hungary is particularly strong in engineering, medicine, economics, and the sciences. Many foreign investors have praised the productivity, motivation and adaptability of Hungarian workers. More and more young people are attending U.S. and European-affiliated business schools in Hungary. Foreign language skills are becoming more common, especially among younger Hungarians, many of whom speak English and/or German.

The 2000 annual unemployment rate was 6.4 percent, according to a labor survey based upon ILO standards. Unemployment is very low in Budapest (just over 3 percent in April, 2000) and in Western Hungary as a whole. Foreign companies operating in northwest Hungary occasionally face difficulties finding skilled workers. Unemployment levels are higher than the national average in Hungary east of the Danube. Labor there is cheaper but nearly as skilled as in western Hungary due to the many facilities of higher education to be found in cities such as Debrecen, Szeged, Miskolc and Szolnok.

The Hungarian labor code guarantees employees the right to form or join trade unions and gives unions the right to operate inside of a company. Unions are entitled to negotiate collective bargaining agreements. The labor code limits the length of the workday plus overtime to 12 hours; guarantees maternity leave; provides for at least 20 days of annual leave; mandates at least 30 days notice prior to severance; requires severance pay for those employed at least three years. The law also forbids discrimination based on gender, age, or nationality. The minimum employment age is 16 years, with the exception of apprenticeships, which may begin at the age of 15. Hungary is signatory to and adheres to ILO conventions protecting worker rights. The current monthly minimum wage is HUF 40,000 (USD 142) but this is expected to increase to HUF 50,000 (USD 177) in 2002.

E. Foreign Trade Zones/Free Ports

Foreign investors may set up operations or acquire interest in companies within a duty-free foreign trade zone. The zone is considered foreign territory for customs, foreign exchange, and foreign trade regulation purposes, while companies within the zone are legally considered to be foreign companies. They are required to keep strict accounts and establish a forint account at a local bank to meet certain expenses. The Act specifies that taxes and wages must be paid in local currency. The future of these zones will be part of the negotiations for Hungary's accession to the European Union.

F. Foreign Direct Investment Statistics

According to the Hungarian Investment and Trade Development Agency (ITDH), the stock of foreign direct investment (FDI) in Hungary since 1989 totals USD 23.5 billion, equivalent to 44 percent of Hungary's 2000 GDP. 2000 FDI totaled USD 1.65 billion, about 5 percent of GDP. The U.S. continues to be a leading investor in Hungary, with total FDI estimated at USD 6.8 billion. Other major sources of FDI include Germany, the Netherlands, Austria, Great Britain and France. At the end of 2000, 50 percent of all foreign investment was located in industrial manufacturing, followed by telecommunications (15 percent), energy (13 percent), banking/finance (6 percent), commerce (6 percent), and 10 percent in other sectors.

Hungary's foreign direct investment jumped dramatically in 2000 by USD 557 million, accounting for nearly a third of Hungary's total stock of FDI abroad of USD 1.9 billion.

Nearly half of the USD 557 million was accounted for a by single transaction, the Hungarian oil company's acquisition of a large stake of Slovakian oil company.

Listed below are major U.S. direct investments in Hungary, primarily privatization and greenfield projects. This list is not exhaustive, but indicative only.

General Electric
General Motors
Media One
Alcoa
Hungarian Tel/Cable Corp.
Visteon
IBM
Pepsico
AES
Coca-Cola
Guardian Glass
Bristol Myers-Squibb
Sara Lee
Marriott Hotel
GE Capital
Jabil Circuit
Phillip Morris
Lear Corporation

Chapter 8. Trade and Project Financing

A. Description of the Banking System

The Hungarian banking and financial sectors' development is shaped by the requirements of globalization, technological advancement, and accession to the EU. Continued liberalization of the sector and the rapid growth of capital transactions have created a mature financial system.

The National Bank of Hungary (MNB) exercises a large influence on the banking sector and the monetary policy of Hungary. The MNB has ended most of its commercial functions, but continues to relend loans from abroad to domestic banks. The forint is fully convertible and is freely traded on currency markets. The MNB relies primarily on two instruments to control the country's economy via the banking sector: setting the size of mandatory reserves for commercial banks, and setting leading interest rates.

The banking system, along with the capital market, the insurance and pension fund markets, is controlled by one authority: the State Supervision of Financial Organizations, created by the merger of three supervisory bodies in April 2000.

Hungary's legislation has opted for "universal banking" as opposed to the U.S. practice of separate commercial and investment banking. Since 1999 banks with appropriate licenses are entitled to provide the full range of securities transactions, including trade in stocks and publicly placed corporate bonds, in addition to commercial banking services.

Foreign financial institutions can open and operate branch offices in Hungary. Wholly owned subsidiaries or branches of foreign banks are acquiring an increasingly larger share of the market. Furthermore, there is a clear tendency for consolidation in the sector as a number of small banks have been bought or merged with larger banks.

The Hungarian government continues to hold equity in a few credit/specialized financial institutions. These include the Hungarian Ex-Im Bank (100 percent), Hungarian Development Bank (100 percent), Land Credit and Mortgage Bank (100 percent), and OTP (0.9 percent).

As the Hungarian banking system develops, new types of credit/financial institutions are entering the marketplace including the first mortgage bank and several home-savings institutions. Also, a few credit rating agencies with international involvement have started operation in Hungary.

B. U.S. Banks Operating in the Local Economy

There are currently two banks with U.S. equity in the Hungarian marketplace.

Budapest Bank Rt
Mr. Daniel O'Connor, President
Mr. Richard Pelly, General Manager
Honved u 10
1054 Budapest
Tel: (36 1) 328 1700
Fax: (36 1) 269 2417
Web Address: www.bbrt.hu
E-mail: bbrt@bbrt.hu

Citibank Rt
Mr. Mark Robinson, General Manager
Szabadsag ter 7
1054 Budapest
Tel: (36 1) 374 5000
Fax: (36 1) 374 5100
Web Address: www.citibank.hu

C. Commercial Banks with Correspondent U.S. Banking Relationships

In addition to the two U.S.-owned banks mentioned above, all major banks in Hungary have correspondent banks in the United States. A partial list includes:

Central-European International Bank - CIB
(majority owned by Banca Commerciale Italiana)
Mr. Gyorgy Zdeborszky, President
Mr. Zoltan Bodnar, General Manager
Medve utca 4-14
1027 Budapest
Tel: (36 1) 212 1330
Fax: (36 1) 212 4200

Web Address: www.cib.hu
E-mail: cib@cib.hu

Hungarian Foreign Trade Bank Ltd (MKB)
(majority owned by Bayerische Landesbank, Germany)
Mr. Tamas Erdei, Chairman & CEO
Vaci utca 38
1056 Budapest
Tel: (36 1) 269 0922
Fax: (36 1) 269 0959
Web Address: www.mkb.hu

Kereskedelmi Es Hitelbank Rt (Commercial and Creditbank)
Mr. Tibor Rejto, CEO
Vigado ter 1
1051 Budapest
Tel: (36 1) 328 9000
Fax: (36 1) 328 9696
Web Address: www.khb.hu
E-mail: khbinfo@khb.hu

National Savings and Commercial Bank - OTP Bank
Dr. Sandor Csanyi, Chairman and CEO
Nador u 16
1051 Budapest
Tel: (36 1) 353 1444
Fax: (36 1) 312 6858
Web Address: www.otpbank.hu
E-mail: otpbank@otpbank.hu

Postabank es Takarekpenztar Rt
Mr. Henrik Auth, CEO
Mr. Gyula Hegedus, Managing Director
Rumbach Sebestyen u. 21
1071 Budapest
Tel: (36 1) 350 2733
Fax: (36 1) 317 1369
Web Address: www.postabank.hu
E-mail: info@postabank.hu

Additionally, there are a number of international banks that maintain representational offices in Budapest (most with offices in the United States): Creditanstalt-Bank Austria, Credit Lyonnais, Deutsche Bank, and ING Bank.

D. Availability of Financing

In recent years, capital has become more readily available for businesses, due in part to greater foreign presence, falling interest rates, and increasing competition. However, borrowing rates remain prohibitive for many small and medium-size enterprises (SMEs), with lending rates 10-12 percent over current rates of inflation. Given the inflation rate (9.8 percent in 2000), long term borrowing in local currency at a fixed rate is extremely expensive. Most lending by commercial bank takes place at a floating interest rate and for periods shorter than one year. Project financing is rather limited in Hungary and most such loans are denominated in foreign currencies and provided by foreign banks. Foreigners have greater access to capital outside the country and at better rates than those available in Hungary. Foreign banking subsidiaries have won many of the most attractive clients. Foreign investors have equal access to credit on the local market, the only exceptions being special government credits (such as small business loans) and European Union and international financial organizations, which may lend only to Hungarian businesses.

Financing via issuance of corporate bonds is very limited, as the corporate bond market hardly exists. To date only blue-chip companies and local subsidiaries of multinationals have issued corporate bonds in Hungary.

The Export-Import Bank of the United States (Ex-Im Bank) and the U.S. Overseas Private Investment Corporation (OPIC) currently offer financing, insurance and loan guarantees in the Hungarian market. There are also several multilateral development banks and other international financial institutions active in Hungary.

E. Multilateral Development Banks and International Financial Institutions

The following institutions are currently active in Hungary:

European Bank for Reconstruction & Development (EBRD)
Mr. Hans-Peter Achermann, Director
Rakoczi ut 42
1072 Budapest
Tel: (36 1) 266 6000
Fax: (36 1) 266 6003
E-mail: achermah@ebrd.com
Web Address: www.ebrd.com/english/index.htm

International Bank for Reconstruction & Development (The WORLD BANK)
Mr. Roger Grawe, Country Director
Bajcsy Zsilinszky ut 42-46
1054 Budapest
Tel: (36 1) 374 9500
Fax: (36 1) 374 9510
E-mail: Rgrawe@worldbank.org
Hungarian Representative (Washington D.C.): Ms. Zsuzsanna Varga
Tel: (1) (202) 458-7429
Tax: (1) (202) 522-3453
Web Address: www.worldbank.org

International Finance Corporation (IFC)
Ms. Borbala Czako, Chief of Mission
Bajcsy Zsilinszky ut 42-46
1054 Budapest
Tel: (36 1) 374 9590
Fax: (36 1) 374 9597
Web Address: www.ifc.org

International Monetary Fund (IMF)
c/o National Bank of Hungary
Mr. Roger Nord, Senior Resident Representative
Szabadsag ter 8-9
1054 Budapest
Tel: (36 1) 269 0759
Fax: (36 1) 269 0760
E-mail: Kelemene@mnb.hu
Web Address: www.imf.org

The European Investment Bank has no local office in Hungary.

Chapter 9. Business Travel

A. Business Customs

Business customs are similar to those in the United States and Western Europe. Typically, Hungarian business people prefer to develop a personal relationship on which to base a business connection. Normal business hours are 9:00 a.m. to 5:00 p.m. It is not uncommon for businesses and government offices to close in the early afternoon on Fridays. Luncheons, receptions and dinners are a familiar mode of doing business.

B. Travel Advisory and Visas

There are no travel advisories issued for Hungary. Hungary is generally safe and hygienic, although visitors are advised to guard their personal belongings and automobiles. American citizens traveling to Hungary do not require visas. Those intending to stay for longer than 90 days will require residency permits. With certain exceptions, Americans must obtain both work and residence permits if they are employed in Hungary. To obtain a work permit, a visa for work purposes may be obtained from the Hungarian Embassy in the United States prior to arrival in Hungary. Measures designed to curb work and residence permit abuses have made the procedures more cumbersome and time-consuming.

Note: U.S. citizens are prohibited from conducting any kind of commercial transactions with the Aquincum Corinthia Hotel, Hank's restaurant (formerly known as Henry J. Beans) with its component areas, the Chicago Rib Shack, and Blues Alley as they are majority owned by a Specially Designated National of Libya.

Additional information on travel and living in Hungary can be reviewed on the Consular Section’s website at www.usis.hu/consular.htm.

C. Hungarian Holidays

Hungary celebrates the following holidays:

National Day	August 20, 2001
Republic Day (extended-2001 only)	October 22, 2001
Republic Day	October 23, 2001

All Saint’s Day	November 1, 2001
Christmas Day	December 25, 2001
Boxing Day	December 26, 2001
New Year’s Eve (2001 only)	December 31, 2001
New Year’s Day	Jan. 1, 2002
Revolution Day	March 15, 2002
Easter Monday	April 1, 2002
Labor Day	May 1, 2002
Whit Monday	June 14, 2002

D. Business Travel Infrastructure

In addition to MALEV, the Hungarian national airline, Hungary is served by many international airlines. Although at the time of this report no U.S. flag carrier has flights to Hungary, there are a number of code share agreements with international airlines. United Airlines, American Airlines and Continental Airlines have off-line service to Budapest as well. Travel into the countryside is easily accomplished by car or rail. Hungary is criss-crossed by railway lines that connect most cities. The Hungarian National Railway's "Inter-City" line provides express service to several cities. A hydrofoil can be taken to Vienna, Austria. Highways are generally good, with a major construction program to upgrade connections with some outlying cities now served by two-lane roads.

In Budapest, there is an efficient subway (3 lines) that is supplemented by a comprehensive bus, tram and trolley system. Taxis are also available; however, it is advisable to phone one of the major taxi companies, rather than hailing at curbside. Hotel taxis are permitted to charge higher rates. Although fares are regulated from the airport, it is wise to ask the price in advance to a destination (airport to downtown is approx. USD 25). There is also an airport minibus shuttle service, which is reliable and costs under USD 10.

Budapest has five 5-star (Hilton, Hyatt, Inter-Continental, Kempinski, Marriott) and several 4-star hotels located near the city center. Hotel facilities vary in quality outside of Budapest.

Telephone service is very reliable in Hungary, including long-distance. Budapest is serviced by three cellular phone systems as well as by several paging services. Calling card services such as AT&T, MCI and Sprint can be accessed from Hungary.

English is regularly used in business contexts. There are, of course, firms, especially smaller ones, whose principals do not speak English. In these instances, an interpreter is often made available. It is nonetheless prudent to ask in advance what interpretation provisions have been made for a meeting.

Hungarians address each other by their family names first, followed by their given names (e.g., Smith John). Business cards follow this convention unless printed in English. It is always advantageous to learn basic greetings in Hungarian. Hungarian business partners will appreciate even the most minimal efforts.

"Foreign Service Posts: Guide for Business Representatives" is available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington DC 20402, tel: (202) 512-1800, fax: (202) 512-2250. Business travelers to Hungary seeking appointments with U.S. Embassy Budapest officials should contact the Commercial Section in advance. The Commercial Section can be reached by telephone at (36 1) 475-4236, by fax at (36 1) 475-4676 or by email at obudapes@mail.doc.gov. Business representatives are encouraged to visit the Embassy's Website at http://www.usis.hu.

Chapter 10. Economic and Trade Statistics

APPENDIX A: COUNTRY DATA
(SOURCE: HUNGARIAN CENTRAL STATISTICS OFFICE)

POPULATION (MILLION)	10.197
POPULATION GROWTH RATE (%)	1.7
RELIGION	CATHOLIC/REFORMIST/JEWISH/LUTHERAN
GOVERNMENT SYSTEM	REPUBLIC/MULTI-PARTY
LANGUAGES	HUNGARIAN/GERMAN/ENGLISH
WORK WEEK	MONDAY TO FRIDAY

APPENDIX B: DOMESTIC ECONOMY
(SOURCE: HUNGARIAN CENTRAL STATISTICS OFFICE)

	1999	2000	2001(est.)	2002 (est.)
NOMINAL GDP (USD MILLION)	48.45	44.39	46.5	48.7
REAL GDP GROWTH (%)	4.5	5.2	4.8	4.8
GDP PER CAPITA (USD)	4787	4420	4560	4730
GOV. SPENDING AS A % OF GDP	46.6	47.0	43.2	41.2
CONSUMER PRICE INFLATION (%)	10.4	9.8	8.8	7.0
UNEMPLOYMENT RATE (%)	7.0	6.0	5.5	5.5
FOREIGN EXCHANGE RESERVES (USD BILLION)	11.0	11.2	11	11
EXCHANGE RATE FOR USD (ANNUAL AVERAGE)	237.15	282.27	285	290
DEBT SERVICE PAYMENTS/ EXPORT (%)	16.3	12.9	N/A	N/A

APPENDIX C: TRADE (U.S. DOLLARS)
(SOURCE: CUSTOMS STATISTICS PROVIDED BY THE FINANCE MINISTRY)

	1999	2000	2001 (est.)	2002 (est.)
TOTAL EXPORTS, MILLION USD	25013	28092	29836	33416
EXPORTS TO USA MILLION USD	1297	1475	1162	1301
TOTAL IMPORTS, MILLION USD	28008	32079	33661	37700
IMPORTS FROM USA MILLION USD	968	1223	1497	1677

Chapter 11. U.S. and Country Contacts

A. U.S. Embassy Personnel

American Embassy Budapest
Charge d'Affaires: Thomas B. Robertson
Economic Counselor: Jean A. Bonilla
Commercial Counselor: Scott Bozek (see below)
Consul General: Susan Alexander
Political Counselor: Kyle Scott
Defense Attache: Colonel Sweeney
Office of Defense Cooperation: Colonel Hart
Szabadsag ter 12
H-1054 Budapest
Tel: (36 1) 475-4400
Fax: (36 1) 475-4764
Web Address: www.usis.hu

U.S. Commercial Service
Senior Commercial Officer: Scott Bozek
Commercial Officer: Pamela Ward
Bank Center Granite Tower
Szabadsag ter 7-9
H-1054 Budapest
Tel: (36 1) 475-4090
Fax: (36 1) 475-4676
E-mail: Budapest.office.box@mail.doc.gov
Web Address: www.usatrade.gov

U.S. Department of Agriculture
Agricultural Specialist, Foreign Agricultural Service: Ferenc Nemes
Tel: (36 1) 475-4162
Fax: (36 1) 475-4676
E-mail: AgBudapest@compuserve.com
Agricultural Counselor (Embassy Vienna): Robert Curtis
Tel: (43 1) 313-39-2249
Fax: (43 1) 310-8208
E-mail: Agvienna@compuserve.com
Web Address: www.usda.gov

B. AmCham and Bilateral Business Councils

American Chamber of Commerce in Hungary
Executive Director: Peter Fath
Deak Ferenc utca 10
H-1051 Budapest
Tel: (36 1) 266-9880
Fax: (36 1) 266-9888
Web Address: www.amcham.hu

C. Trade and Industry Associations

Hungarian Chamber of Commerce and Industry
President: Dr. Lajos Tolnay
Kossuth Lajos ter 6-8
H-1055 Budapest
Tel: (36 1) 474-5100
Fax: (36 1) 474-5105
Web Address: www.mkik.hu

Federation of Hungarian Industrialists
President: Gabor Szeles
Secretary General: Istvan Wimmer
1055 Budapest
Kossuth Lajos ter 6-8
Tel: (36-1) 474-2043; Fax: (36-1) 474-2065

Hungarian Direct Selling Association
Eva Rajki, Secretary General
1/C I/114, Erzsebet kiralyne utja
H-1146 Budapest
Phone/fax: (36-1) 344-49-51
E-mail: evarajki.dsahungary@mail.datanet.hu.

Association of IT Companies
President: Tibor Gyuros
Madach ter 3-4.
H-1075 Budapest
Tel: (36 1) 327-8346, 327-8347
Fax: (36 1) 327-8343
E-Mail: ivsz@ivsz.hu
Web Address: www.ivsz.hu

Association of the Hungarian Electronic and Informatics Industries
(Magyar Elektronikai és Infokommunikációs Szövetség)
Mr. László Binder, President
Mr. Kálmán Szép, Head of office
Mr. Ferenc Schler, Main Secretary
Address: Szemere u. 17., H-1054 Budapest
Tel: (36 1) 331 8986 and 311 6271
Fax: (36 1) 331 6320
E-mail: meisz@meisz.hu
Web Address: www.meisz.hu

Hungarian Franchise Association
(Magyar Franchise Szövetség)
Mr. László Attila Erdelyi, President
Margit korut 15, 1024 Budapest
Tel: (36 1) 212 4124
Fax: (36 1) 212 5712
E-mail: franchise@franchise.hu

Web Address: www.franchise.hu

Association of the Hungarian Pharmaceutical Industries
(Magyar Gyógyszergyártók Országos Szövetsége)
Mr. Istvan Orbán, President
Dr. Lászlo Buzás, Secretary General
Vorosmarty ter 1, H-1051 Budapest
Tel: (36 1) 318 7748
Fax: (36 1)318 8587
E-mail: magyorsz@mail.tvnet.hu
Web Address: www.magyorsz.hu

D. Hungarian Government Offices

Embassy of the Republic of Hungary
3910 Shoemaker Street, N.W.
Washington, D.C. 20008
Tel: (202) 362-6730
Fax: (202) 966-8135
E-mail: office@huembwas.org
Web Address: www.hungaryemb.org

The Hungarian Investment and Trade Development Agency
CEO: Mr. Vilmos Skulteti
1051 Budapest
Dorottya u. 4
Tel: (36 1) 318-0051
Fax: (36 1) 318-3732
E-mail: itd@itd.hu
Web Address: www.itd.hu

Homepages of Hungarian Government Ministries/Organizations:

The Prime Minister's Office: www.kancellaria.gov
Government of the Hungarian Republic: www.meh.hu
Ministry of Economic Affairs: www.gm.hu
Ministry of Foreign Affairs: www.mfa.hu
Ministry of Finance: www.meh.hu
Ministry of Environment: www.ktm.hu
Ministry of Transport and Water Management: www.khvm.hu
Ministry of Agriculture and Regional Development: www.fvm.hu
National Bank of Hungary: www.mnb.hu
Hungarian Export-Import Bank Rt.: www.eximbank.hu
Hungarian Privatization and State Holding Co. (APV Rt.): www.apvrt.hu

E. U.S. Government Contacts

Export-Import Bank of the United States
Senior Business Development Officer: Frank Graebner
811 Vermont Avenue, N.W.
Washington, D.C. 20571

Tel: 202-565-EXIM, 800-565-EXIM
Fax: 202-565-3628
E-mail: frank.graebner@exim.gov
General Numbers
Tel: 202-565-3800
Fax: 202-565-3380
Web Address: www.exim.gov

Multilateral Development Bank Operations
U.S. Department of Commerce
Ms. Janet Thomas, Director
USA Trade Center
Mailstop: R-MDBO
Washington, D.C. 20230
Tel: (202) 482-3399
Fax: (202) 482-3914
E-mail: Janet.Thomas@mail.doc.gov
Web Address: www.usatrade.gov/mbdo

Overseas Private Investment Corporation (OPIC)

1100 New York Avenue, NW
Washington, DC 20572
Tel: 202-336-8799
Fax: 202-408-9859
E-mail: info@opic.gov
Web Address: www.opic.gov

Small Business Administration
409 3rd Street, S.W.
Washington, DC 20416
Tel: 800-U-ASK-SBA
Web Address: www.sba.gov

Trade Information Center
U.S. Department of Commerce
Washington, DC 20230
Tel: 1-800-USA-Trade
Fax: (202) 482-4473
E-mail: tic@ita.doc.gov
Web Address: www.ita.doc.gov

U.S. Department of Agriculture
Foreign Agricultural Service
Trade Assistance and Promotion Office
Tel: (202) 720-7420
Web Address: www.fas.usda.gov

U.S. Department of Commerce
Market Access & Compliance (MAC)
14th & Constitution Ave, NW

Washington, DC 20230
Jay Burgess, Director
Tel: (202) 482-2645
Fax: (202) 482-4473
Hungary Desk Officer: Laurie Molnar
Tel: (202) 482-4915
Fax: (202) 482-4505
E-mail: Laurie_Molnar@ita.doc.gov
Web Address: www.ita.doc.gov

U.S. Department of Commerce
The Central and Eastern Europe Business Information Center (CEEBIC)
Michael Rogers, International Trade Specialist
1300 Pennsylvania Ave., NW
USA Trade Center
Suite 800 (Mezzanine Level)
Tel: (202) 482-2645
Fax: (202) 482-3898
E-mail: Michael_Rogers@ita.doc.gov
Web Address: www.itaiep.doc.gov/eebic/ceebic.htm/

U.S. Department of State
Hungary Desk Officer: Helene Kessler
EUR/NCE Room 5220
2201 C Street, NW
Washington, DC 20520
Tel: (202) 647-32387
Fax: (202) 736-4853
E-mail: kesslerhm@state.gov
Office of the Coordinator for Business Affairs
Tel: 202-746-1625
Fax: 202-647-3953

U.S. Trade & Development Agency
Country Manager: Aileen Crowe
1621 North Kent Street, Suite 200
Arlington, VA 22209-2131
Tel: (703) 875-4357
Fax: (703) 875-4009
E-mail: info@tda.gov or acrowe@tda.gov
Web Address: www.tda.gov

Office of the U.S. Trade Representative
Deputy U.S. Trade Representative: Cathy Novelli
Executive Office of the President
Washington, DC 20506
Tel: 202-395-3204
Fax: 202-395-3911
Web Address: www.ustr.gov

F. Other Key Contacts

U.S. Eastern Hungary Program Foundation
Ms. Susan Kutor, Program Director
Deak Ferenc utca 10
H-1051 Budapest
Tel: (36 1) 267-6858
Fax: (36 1) 266-9888
E-mail: s.kutor@nextra.hu
Web Address: www.invest-ehu.com

Chapter 12. Market Research

Below you will find a list of market research reports that have been completed by the Commercial Service in Budapest. This market research is available on the National Trade Data Bank (NTDB), from the U.S. Commercial Service's Office in Hungary, and on the Commercial Service's website at www.usatrade.gov.

Air Pollution Control – ISA (POL)

Airport Development Opportunities, IMI

Architecture/Construction/Engineering Services - ISA (ACE)

Auto Parts Market IMI (APS)

Banking & Financial Services, ISA (FNS)

CE- Mark Medical, IMI

Civil Aviation Market in Hungary (AIR, APG)

Computer Hardware Market, IMI (CPT)

Computer Networking, ISA (CPT)

Cosmetics and Toiletries, ISA (COS)

Defense Market Guide, IMI (DFN)

Distribution System, ISA (GSV)

Dunaferr Privatization, IMI

E-Commerce Brief, IMI

Education, IMI

Educational Services Market Brief, IMI

Energy Market, IMI

Energy Overview

Environmental Research, IMI (ENV)

Environmental Technologies

Franchising in Hungary, ISA (FRA)

Flood Control Export Opportunities, IMI

Home Health Care, ISA

Housing program, IMI

HCG Hungary, ISA

Home Health Care Market, ISA (MED)

ICT Market Hungary, IMI

ICT Report for Hungary

Internet Securities, ISA

Internet Services, ISA (CSV)

Medical Market Brief

Motor Vehicle Sales, IMI

New City Center, IMI

Packaging, IMI

Pannon Wood and Furniture Cluster, IMI

Pharmamarket, IMI

Pharmaceutical overview (MED)

Privatization, IMI

River Pollution, IMI

Real Estate Market in Hungary, ISA (GSV)

Regional Business Aircraft and Parts, IMI (AIR)

Renewable Energy, ISA (REQ)

Safety and Security, ISA (SEC)

Shopping Malls in Hungary, IMI (GSV)

Service Sector Report

Tourism Development Funds, IMI

Trademark Registration, IMI

Transport Plan, IMI

Telecommunications Services, IMI (TES)

Travel and Tourism, ISA (TRA)

Travel to the U.S., IMI

Value-added Telecom Services, ISA

Waste Management, ISA (POL)

Wastewater Treatment, ISA (POL)

The above listed market research is available on the National Trade Data Bank (NTDB). Reports are also available from the U.S. Commercial Service's Office in Hungary.

Market reports on agricultural issues are available from the U.S. Department of Agriculture's website at http://usembassy-vienna.at/USDA. Below is a partial list of available reports:

Livestock and Products Annual Report

Grain and Feed Revised Production, Supply and Distribution

Cotton Annual Report

Tobacco Annual Report

Oilseeds and Products Annual Report

Grain and Feed Annual Report

EU Accession Update

U.S. Disadvantaged by Preferential Tariffs

Exporter Guide to Hungary

Cereal and Corn Update

Rapeseed, Soybeans, and Sunflower Update

Fresh Deciduous Fruit Annual Report

Poultry Situation and Outlook

Livestock Annual Report

Chapter 13. Trade Event Schedule

September 2-4, 2001	MDI 1998's Budapest Fashion Days, Jeans and Sport Days, Interior Textiles

September 14-23, 2001	Hungexpo's International Fair for Consumer Goods
October 2-5, 2001	Hungexpo's Budatranspack, International Packaging and Material Handling Trade Exhibition
October 2-5, 2001	Hungexpo's Printexpo, International Trade Exhibition for Printing Industry
October 2-5, 2001	Hungexpo's Okotech, International Environmental Protection and Communal Trade Exhibition
October 2-5, 2001	Hungexpo's Hungaromed, International Trade Fair for Medical Technology and Health Care
October 2-5, 2001	Hungexpo's Promotion, International Marketing Communication Trade Fair
October 2-6, 2001	Hoventa's Hoventa, International Exhibition for Trade and Catering Technics
October 17-21,2001	Hungexpo's Automobil 2001-Budapesti Autoszalon, International Exhibition for Automotive Industry
October 30-November 3, 2001	Compexpo's Compfair – 2001, International Informationtechnology Exhibition and Trade Fair
November 6-9, 2001	Hungexpo's Hungarodidact, International Trade Fair for Education, Educational Technology and Training
November 8-11, 2001	Hungexpo's Ho Show, Rendez-Vous for Winter Sports Fans
November 13-17, 2001	KG HomeArt's Butorvilag, International Furniture Trade Fair, Woodma – Interwood
November 27-30, 2001	Hungexpo's C + D, Central European Defense Equipment and Aviation Exhibition
February 7-9, 2002	Faba's Magyar Kert, Fair for Trade Professionals of Garden Products
February 7-9, 2002	Faba's SzeVa, Fair for Trade Professionals of Tools, Hardware and Do-It-Yourself Products
February 10-12, 2002	Hungexpo's UKBA, International Trade Fair for the Confectionery, Bakery and Gastronomy
February 17-19, 2002	MDI 1998's Budapest Fashion Days, Jeans and Sport Days, Interior Textiles
February 20-23, 2002	Hungexpo's Agro+Mashexpo, International Trade Fair for Agricultural Products and Machinery
February 26-March 1, 2002	Labortechnika Egyesules' Labortechnika 2002
March 7-10, 2002	The U.S. Pavilion at UTAZAS, International Tourism Exhibition
March 21-24,2002	Hungexpo's Sport, International Sport and Leisure Time Fair
March 21-24, 2002	Hungexpo's Budapest Boat Show, International Boat Exhibition
March 21-24, 2002	Hungexpo's Fehova, Hunting, Fishing and Arms International Exhibition
March 21-24, 2002	Hungexpo's Budapest Motor Show, International Trade fair for Automotive Industry
April 9-13, 2002	Hungexpo's Construma, International Trade Fair for Building Material, Construction Machinery, Sanitation, Heating and Air-Conditioning
April 9-13, 2002	Hungexpo's Decorstone, International Trade Fair for Marble, Stone

	and Granite Industry
April 23-27, 2002	Hungexpo's INFO 2002, International Trade Fair for Information and Communication Technology
May 28-31, 2002	Hungexpo's Industria, International Industry Trade Fair
May 28-31, 2002	Hungexpo's Securex, International Trade Exhibition of Labour Safety and Security Protection
June 12-14, 2002	Braun's SPEDEXPO, Trade Fair for Transportation and Trucks
August 25-27, 2002	MDI 1998's Budapest Fashion Days, Jeans and Sport Days, Interior Textiles
September 16-22, 2002	Hungexpo's BNV • Budapest International Fair for Consumer Goods
October 2-6, 2002	Hungexpo's Automobil – Autotechnika 2002, International Exhibition for Automotive Industry
October 15-18, 2002	Hungexpo's Okotech, International Environmental Protection and Communal Trade Exhibition
October 15-18, 2002	Hungexpo's Hungaromed, International Trade Fair for Medical Technology and Health Care
October 15-19, 2002	Hoventa's Hoventa, International Exhibition for Trade and Catering Techniques
November 7-10, 2002	Hungexpo's Ho-Show, Rendez-Vous for Winter Sports Fans
November 13-17, 2002	KG HomeArt's Butorvilag, International Furniture Trade Fair, Woodma – Interwood
November 26-29, 2002	Hungexpo's Foodapest 2002, International Food, Drink and Food Processing Exhibition

Because trade event schedules may change, firms should consult the export promotion calendar on the NTDB or contact CS Budapest for the latest information. A schedule HungExpo's trade shows can be found on their website at www.hungexpo.hu.